



Tasmania

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

**ANNUAL REPORT
1998-99**

**PREPARED BY
THE TASMANIAN STATE SERVICE
WORKERS' COMPENSATION COMMITTEE**

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Mr D W Challen
Secretary
DEPARTMENT OF TREASURY AND FINANCE

TASMANIAN STATE SERVICE WORKERS' COMPENSATION SCHEME 1998-99 ANNUAL REPORT

I am pleased to submit to you the 1998-99 Annual Report of the Tasmanian State Service Workers' Compensation Scheme.

Although there is not a statutory requirement to prepare an Annual Report, the members of the Committee responsible for the operation of the Scheme consider it is appropriate to prepare a report that could be made available to participating agencies.

The Scheme was designed with the intention that it be fully funded. That is, the Scheme should have been building up reserves with which to meet the outstanding claims liabilities as they arose. However, as a result of consistently underestimating the cost of each accident year when setting agency contributions until 1995-96, this did not occur. In 1995-96, the process of establishing reserves was commenced with the overdraft at 30 June 1995 of \$4.7 million being fully repaid and the Trust Account having a balance of \$20 395 as at 30 June 1996. The process of establishing reserves has continued and, as a result, the Trust Account had a balance of \$46.75 million as at 30 June 1999. The Scheme will be fully funded by 30 June 2000.

Since 1995-96, a number of indicators contained in the accrual financial statements and the Actuary's reports have suggested that the financial situation of the Scheme was improving. The financial situation of the Scheme continued to improve in 1998-99. In particular:

- As at 30 June 1999, the Scheme had outstanding claims liabilities of \$50.79 million (including an allowance of \$3.59 million for future administrative expenses), and had \$46.75 million in the Trust Account. This represents a marked improvement compared to the position as at 30 June 1998, when the Scheme had outstanding claims liabilities of \$53.6 million (including an allowance of \$4.0 million for future administrative expenses), but had only \$29.99 million in the Trust Account;

- total estimated claim costs for each claim year, after peaking at \$31.4 million in 1993-94, have declined to \$18.22 million in 1998-99;
- the number of claims continues to decrease. It is estimated by the Actuary that a total of 1 770 claims will be made in respect of injuries occurring in 1998-99, compared to 1 908 in 1997-98 and 2 124 in 1996-97;
- there is evidence that the estimated average cost of claims is plateauing. It is estimated that the average cost of claims made in respect of injuries occurring in 1998-99 will be \$10 296 compared to \$9 440 in 1997-98 and \$8 450 in 1996-97; and
- total claim payments made have stabilised. A total of \$20.1 million was paid on claims in 1998-99 (regardless of when the claim leading to the payment occurred), compared to \$23.4 million in 1997-98 and \$26.2 million in 1996-97.

The Committee is actively working to ensure that the Scheme continues to operate in a financially responsible manner and that appropriate incentives and sanctions are in place to ensure that agencies effectively manage their workers' compensation responsibilities.

Philip Mussared
Chairman
Tasmanian State Service Workers' Compensation Committee

March 2000

**TASMANIAN STATE SERVICE
WORKERS' COMPENSATION SCHEME**

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CONTENTS

1.	MISSION	1
2.	BACKGROUND	1
3.	OPERATION OF THE SCHEME	
3.1	History of the Scheme	1
3.2	Contribution Calculation	3
3.3	Catastrophe Insurance	4
3.4	Role of the Fund Administration Agent	4
3.5	Role of the Actuary	5
3.6	Role of the Office of the Director of Public Prosecutions	6
4.	SIGNIFICANT DEVELOPMENTS IN 1998-99	
4.1	TSSWCS Trust Account	6
4.2	Trends in Claims	7
4.3	Accrual Accounts	8
4.4	Arrangements for the Scheme from 1 July 1996	8
4.5	Port Arthur Tragedy	10
4.6	Project for the Prevention and Management of Stress	11
4.7	Appointment of Fund Administration Agent for the Scheme	12
4.8	Implementation of Performance Standards for Self Insurers	12
5.	MEMBERSHIP OF THE TASMANIAN STATE SERVICE WORKERS' COMPENSATION COMMITTEE	13
6.	THE REPORT OF THE ACTUARY	14
7.	ACKNOWLEDGEMENTS	16
8.	APPENDICES	
1	Excesses Selected by Agencies for 1998-99	18
2	Rates and Contributions for Participating Agencies from 1994-95 to 1998-99	19
3	TSSWCS Trust Account - Cash Transactions	22
4	Number and Cost of Claims by Nature of Injury for 1995-96 to 1998-99 as at 30 June 1999	23
5	Financial Statements of the TSSWCS as at 30 June 1999	24
6	Tables from the Report of the Actuary	35

TASMANIAN STATE SERVICE WORKERS' COMPENSATION SCHEME

1. MISSION

To ensure that employees of agencies participating in the Tasmanian State Service Workers' Compensation Scheme (TSSWCS) who suffer injury or illness out of and in the course of their employment are rehabilitated and compensated in accordance with the *Workers' Rehabilitation and Compensation Act 1988*.

2. BACKGROUND

The Scheme, which began operation on 1 July 1989, is an arrangement established within the Tasmanian State Service to meet the cost of workers' compensation and common law claims made by employees of Government agencies. The Scheme is intended to operate on a fully funded basis.

The agencies participating in the Scheme pay actuarially determined contributions. These contributions are paid into the Tasmanian State Service Workers' Compensation Account (T837) which forms part of the Special Deposits and Trust Fund. It is from this Account that all costs associated with the operation of the Scheme are met.

The Tasmanian State Service Workers' Compensation Committee, an inter-departmental committee with representatives from participating portfolio agencies, is responsible for the strategic management of the Scheme. Secretariat and administrative support for the Committee is provided by an Executive Officer funded by the Scheme. Financial matters are managed by the Department of Treasury and Finance.

A Fund Administration Agent is retained on a contract basis to assist agencies to manage claims made by employees. The Fund Administration Agent also provides information to agencies to assist in the formulation of appropriate rehabilitation and risk management policies as well as to the Committee to assist in the management of the Scheme. The Fund Administration Agent bears no insurance risk in performing these duties.

Finally, an Actuary is retained to provide advice to the Committee on contributions and associated matters.

3. OPERATION OF THE SCHEME

3.1 History of the Scheme

The Scheme was established following the enactment of the *Workers' Compensation Act 1988* (now known as the *Workers' Rehabilitation and Compensation Act 1988*).

The Tasmanian Government Insurance Office (TGIO) was engaged as the first Fund Manager for the new Scheme from the inception of the Scheme until June 1992.

In 1991-92, it was decided to revise the arrangements under which the Scheme operated and put the fund management of the Scheme to public tender. Switzerland Insurance (which was subsequently taken over by MMI Insurance Group) was appointed Fund Manager for a three year period from 1 July 1992. The revised arrangements also involved each agency paying a deposit contribution based on claims experience in the previous year. If the deposit contribution was greater than the cost of claims to which the contribution related, there was provision for any surplus contribution to be returned to the agency. Conversely, if the cost of claims was greater than the contribution, the agency was required to make up any shortfall.

The revised arrangements came into effect from 1 July 1992, with the resultant "agency accounts" being operated for a number of agencies participating in the Scheme in the years 1992-93 to 1994-95. The final balance of the agency accounts was determined two years after the end of the year to which the contribution relates - eg the 1994-95 agency accounts were closed on 30 June 1997.

In 1994-95, a further review of the arrangements under which the Scheme operated was conducted. As a result, the Committee decided that agency accounts would not be opened in 1995-96. The 1993-94 and 1994-95 agency accounts, the final balances of which had yet to be determined, would remain open until they were due to be closed on 30 June 1996 and 30 June 1997 respectively. Agencies with deficits in their 1993-94 agency accounts as at 30 June 1996 were required to make up those deficits in 1996-97. Agencies with deficits in their 1994-95 agency accounts as at 30 June 1997 were required to make up those deficits in 1998-99.

In place of the agency accounts, the Committee decided in 1995 that all agencies should be subject to a one week excess on weekly benefits. Agencies would not receive reductions in contributions as a result of being required to bear these claims costs. In addition, agencies would be given the option of being subject to a higher excess, for which a reduction in contributions would be given. The new arrangements would apply to all claims in respect of injuries occurring from 1 July 1995. The Committee confirmed that the same arrangements should apply in 1996-97 with participating agencies being given the option of reviewing whether to be subject to a higher optional excess in respect of all claims occurring from 1 July 1996.

The Committee confirmed that similar arrangements should apply in 1997-98, except that the percentage reduction offered in exchange for a higher excess on weekly benefits would be less than was the case in previous years. This was because weekly benefits represented a smaller percentage of total workers' compensation payments than the percentage which applied when the discounts were first calculated. The former scale of reductions applied from 1 July 1997 to 31 December 1997 and the new scale applied from 1 January 1998. The Committee determined that the existing arrangements would apply in 1998-99. The percentage reductions offered from 1 January 1998 continued to apply in 1998-99.

Appendix 1 shows the number of weeks of excess selected by agencies in 1998-99.

The Agreement with MMI Insurance to perform the functions of Fund Manager for the Scheme expired on 30 June 1998. In September 1997, the Government decided that the Fund Manager contract for the Scheme for the two years from 1 July 1998 was to be determined through an open tender process.

As part of the tender process it was decided that the term "Fund Administration Agent" more accurately reflected the functions to be performed than the existing term of "Fund Manager". As a result of the tender process, FAI Insurance was appointed as Fund Administration Agent for the Tasmanian State Service Workers' Compensation Scheme from 1 July 1998 to 30 June 2000. In January 1999, there was a merger between HIH Insurance and FAI Insurance. Information regarding the transition from MMI to FAI is contained in Section 4.7 below.

3.2 Contribution Calculation

In a fully funded self insurance arrangement, the aggregate contribution should be an amount sufficient to meet the cost of all claims in respect of injuries that will occur in the coming financial year, plus an allowance for administrative expenses. The cost of claims is determined by estimating the number of claims that is expected to occur during the year and their average cost. The aggregate contribution is then apportioned between the agencies participating in the Scheme based on an examination of both the claims history of each agency (ie the number and cost of claims) and the estimated size of the agency (expressed as estimated salaries) compared to the previous financial year. The contribution is then expressed as a product of a contribution rate (as a percentage of \$100 salary) and the agency's estimated salaries for the coming financial year. At the end of each accident year, the contribution is adjusted to take into account the actual size of the agency (expressed as actual salaries) for the financial year.

In 1998-99, the aggregate contribution was determined after consideration of the funding requirements of the Scheme for 1998-99. The Committee determined that the total contribution pool for 1998-99 should be \$37 million, comprised of \$25 million to meet the estimated cost of claims resulting from injuries occurring in 1998-99 and \$12 million to meet the unfunded outstanding cost of past claims. The aggregate contribution of \$37 million for 1998-99 was then apportioned between participating agencies on the same basis as described above.

The total contribution pool was set at \$37 million in order to continue to build reserves in the Trust Account. In earlier years, the Scheme had failed to accumulate the necessary reserves as the cost of claims had been consistently underestimated, with the result that the Trust Account only had a balance of \$20 395 as at 1 July 1996. However, the process of establishing reserves was commenced in 1995-96. As a result, the balance in the Trust Account was \$11.687 million as at 1 July 1997 and \$29.99 million as at 1 July 1998. The balance of the Trust Account as at 1 July 1999 was \$46.75 million. Consequently, the Scheme will be fully funded by 30 June 2000. Appendix 2 contains a table showing contribution rates and total contributions of agencies participating in the Scheme for each of the years 1994-95 to 1998-99.

3.3 Catastrophe Insurance

In order to protect the Scheme from claim costs associated with a single catastrophic event, reinsurance is purchased annually by the Scheme. Quotes for catastrophe insurance for 1998-99 were provided by brokers Sedgwick and Marsh. HIH Winterthur was selected to provide catastrophe insurance cover for the Scheme in 1998-99. The policy provides for unlimited cover for any one event occurring during 1998-99, with an excess of \$1 million. The cost of the policy for 1998-99 was \$233 270.

Following the Port Arthur tragedy in April 1996, the Scheme formally notified MMI (the catastrophe insurer for 1995-96) of the occurrence of an event that was likely to lead to a claim under the catastrophe cover. During 1996-97, claims costs paid in respect of Port Arthur claims exceeded the \$1 million excess. Further details regarding the impact of the Port Arthur tragedy on the Scheme are contained in Section 4.5 below.

3.4 Role of the Fund Administration Agent

The responsibilities of the Fund Administration Agent are set out in a two year Agreement operating from 1 July 1998 to 30 June 2000 between the Crown and the FAI Insurance Group. The revised agreement emphasises that the Fund Administration Agent carries out its functions at the direction of agencies. The key responsibilities of the Fund Administration Agent are as follows:

- The primary task of the Fund Administration Agent is the administration of all workers' compensation and common law claims on behalf of and in accordance with the requests and directions of agencies. This involves file management, processing of payments and reimbursement of wages, collecting recoveries from third parties, investigating liability, and estimating the cost of claims. The Fund Administration Agent is also responsible for managing the claims disputation process on behalf of agencies.
- The Fund Administration Agent is responsible for maintaining a data base concerning all claims made by employees covered by the Scheme. Each claim is classified according to:
 - the division in the agency where the employee was working at the time of the injury took place; and
 - the year of accident - ie when the injury occurred, not when it was reported.

The data base includes not only information concerning the cost incurred to date, but also the estimated cost outstanding on each claim.

- The Fund Administration Agent is responsible for providing data to agencies to assist with risk management and rehabilitation. It is the responsibility of agencies to interpret that data and act on it. For example, the Fund

Administration Agent could be requested to provide an agency with data to assist that agency in identifying individual employees requiring rehabilitation - eg all those claims where the absence from work exceeded two weeks.

- The Fund Administration Agent reports periodically to the Tasmanian State Service Workers' Compensation Committee on the performance of the Scheme as a whole. Reports are made to Committee meetings at least once every quarter.
- The Fund Administration Agent is also responsible for meeting the reporting requirements of the Scheme under the *Workers' Rehabilitation and Compensation Act 1988*.

A total of \$552 471 was paid to HHH Insurance in 1998-99 for providing these services.

3.5 Role of the Actuary

The Actuary, Bendzulla Tasmania, provides the following services to the Scheme:

- Calculation of the portion of the total contribution required from each participating agency;
- Calculation of the breakdown of contributions to division level where requested by an agency;
- Provision of an annual report on the Scheme's performance as at 30 June each year;
- Provision of advice to the Committee on the effect on claims costs of reforms to workers' compensation legislation;
- Provision of reports on administrative arrangements for the Scheme, including the reduction in contributions for higher optional excesses;
- Provision of miscellaneous reports on the calculation of agency contributions; and
- Attendance at meetings with agencies to discuss contributions where required.

A total of \$44 177 was paid to Bendzulla Tasmania in 1998-99 for providing these services.

3.6 Role of the Office of the Director of Public Prosecutions

The Office of the Director of Public Prosecutions (Office of the DPP) provides the following services:

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- Legal advice to the Fund Administration Agent on individual claims files as part of the day to day administration of files.
 - Legal representation for agencies in the Workers' Compensation Commission.
 - Legal representation in the Supreme Court of Tasmania where employees bring common law actions for injuries suffered whilst at work. This is coordinated through the Fund Administration Agent.
 - Legal representation in the case of an appeal, whether that appeal results from a decision of the Workers' Compensation Commission or the Supreme Court. This is coordinated through the Fund Administration Agent.

The Office of the DPP is paid on a fee for service basis for providing legal advice and representation for the Scheme. A total of \$529 067 was paid to the Office of the DPP for providing those services in 1998-99. It should be noted that in Appendix 3, the fees paid to the Office of the DPP for providing legal advice and representation to the Scheme are included in compensation payments.

4. SIGNIFICANT DEVELOPMENTS IN 1998-99

4.1 TSSWCS Trust Account

As mentioned in Section 2 of this Report, the Scheme operates through the Tasmanian State Service Workers' Compensation Scheme Trust Account (T837) which forms part of the Special Deposits and Trust Fund. All contributions made by agencies are paid into this account. Similarly, all costs associated with the operation of the Scheme are met from the Account. Appendix 3 contains a summary of transactions in the Account during 1998-99. The following points should be noted:

- The Trust Account had a balance of \$29.99 million as at 1 July 1998.
- Contributions made by agencies to the Scheme decreased from \$36.3 million in 1997-98 to \$34.9 million in 1998-99. In addition, one agency made a late payment of \$460 585 during 1998-99 in respect of a deficit existing in its 1994-95 agency account when closed on 30 June 1997. Agencies whose staff made claims resulting from the Port Arthur tragedy made additional contributions of \$54 970.
- Administrative expenses decreased from \$2.20 million in 1997-98 to \$1.87 million in 1998-99.
- Compensation payments decreased from \$23.4 million in 1997-98 to \$20.09 million in 1998-99.
- The Trust Account had a balance of \$46.75 million as at 30 June 1999.

4.2 Trends in Claims

Appendix 4 shows the number and cost of claims from 1995-96 to 1998-99 by nature of injury. The figures for the number of claims represent the number of claims occurring in each period which were actually reported as at 30 June 1999. The estimated cost of claims represents the Fund Administration Agent's estimated cost of those claims that were reported and are calculated on a claim by claim basis. These figures may differ from those used in the Actuary's report in Section 6. The Actuary's figures are calculated using a statistical approach on the aggregated experience of the Scheme. Also, the Actuary's figures include claims which have incurred zero cost, whereas the Fund Administration Agent's figures exclude zero cost claims.

- Since the 1993-94 Annual Report, it has been reported that the number of claims appeared to be decreasing. This trend continued during 1998-99 during which 1 606 claims were made. It must be remembered that there were a number of injuries which occurred during the course of 1998-99, but which had yet to be reported at 30 June 1999. Based on past experience, there is a possibility of 10% more claims being reported for the 1998-99 period than was reported as at 30 June 1999. Accordingly, there may be as many as 1 767 claims in respect of 1998-99. This represents an improvement over both 1997-98 (1 898 claims) and 1996-97 (2 120 claims). The total number of claims has declined each year since 1990-91.
- It is difficult to draw any firm conclusions regarding the total cost of claims based on the case estimates of the Fund Administration Agent. In the past, the estimated cost of claims has been less for more recent years compared to earlier years. This is due to the fact that case estimates have tended to increase over time as more information is gathered concerning the likely total cost of each claim. This pattern is evident for the total cost of claims in respect of accidents occurring from 1995-96 (\$22.29 million) to 1998-99 (\$12.03 million) as shown in Appendix 4. However, it may also be the case that the total cost of claims is progressively decreasing, notwithstanding the effects of the Fund Administration Agent's estimate process.

4.3 Accrual Accounts

Prior to 1994-95, the Scheme reported its financial operations on a "cash" basis only - ie the Scheme reported only in terms of revenue and expenditure through the Trust Account. In 1994-95, the Committee decided to also report on an "accrual" basis - ie also report in terms of operating profit/loss and assets and liabilities. Financial statements on an "accrual" basis were again prepared for 1998-99. Those statements were compiled by Deloitte Touche Tohmatsu and were audited by the Tasmanian Audit Office.

The 1998-99 Accrual Accounts and the Audit Report are contained in Appendix 5. The main features are as follows:

- Agency contributions in 1998-99 were \$36.436 million, while claims expenses (on an accrual basis) were \$17.765 million and other expenses were

\$1.073 million, giving an operating profit of \$17.598 million. This compared to an operating profit of \$9.518 million in 1997-98;

- At 30 June 1999, total assets were \$46.929 million, while total liabilities were \$50.914 million, resulting in net liabilities of \$4.735 million. This compared with net liabilities of \$24.085 million at 30 June 1998; and
- There was a net cash inflow to the Scheme of \$16.760 million, resulting in the Trust Account being in credit \$46.750 million as at 30 June 1999. This compared with the Trust Account being in credit \$29.990 million as at 30 June 1998.

On the basis of the first two indicators - operating profit and net liabilities - the performance of the Scheme improved in 1998-99 compared to 1997-98.

4.4 Arrangements for the Scheme from 1 July 1996

In October 1995, the Committee decided that all agencies would be subject to a compulsory one week excess payable on weekly benefits on all claims in respect of injuries occurring from 1 July 1995. This arrangement is consistent with the August 1995 reforms to *Workers' Rehabilitation and Compensation Act 1988*. The Committee also determined that agencies would not be given a reduction in their contributions as a result of having to bear this portion of claims costs.

Agencies were also given the option of being subject to a higher excess on weekly benefits, for which a reduction in contributions would be given. Each agency would be given an opportunity to nominate whether it wishes to be subject to a higher optional excess at the start of each financial year. The excess selected would apply to all claims in respect of injuries occurring in that financial year.

In June 1996, the Committee decided that the Scheme would operate under similar arrangements in 1996-97, with all agencies being given an opportunity to reconsider whether to be subject to a higher optional excess for all claims in respect of injuries from 1 July 1996. Further, the Committee decided that the percentage reductions in contributions for agencies opting to be subject to a higher excess in 1995-96 should apply again in 1996-97.

In the latter half of 1996, the Committee reviewed the future operation of the Scheme. The review resulted in the development of a draft Cabinet Minute. In March 1997, the then Government approved that:

- the Scheme continue to operate in its present form;
- the Scheme operate on a fully funded basis;
- all inner-Budget agencies and statutory authorities currently covered by the Scheme be required to participate in the Scheme;

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- Government Business Enterprises be permitted to withdraw from the Scheme on condition that they meet the unfunded outstanding cost of claims incurred by their staff on an emerging basis;
 - each agency participating in the Scheme pay a contribution based on three components:
 - a component to meet the estimated cost of claims resulting from injuries occurring in the coming financial year, and with such a component being based on the number and cost of claims previously made against each agency;
 - a component to meet the unfunded outstanding cost of past claims that are attributable to that agency; and
 - a component to meet the unfunded cost of claims that are not attributable to any particular agency.

In December 1997, the Committee determined that similar excess arrangements should apply in 1998-99, except that the percentage reductions offered in exchange for a higher excess on weekly benefits should be less than was the case in previous years. This was because weekly benefits represented a smaller percentage of total workers' compensation payments than the percentage which applied when the discounts were first calculated. The former scale applied from 1 July 1997 to 31 December 1997 and the new scale applied from 1 January 1998.

The following table shows the new and old scale of discounts applicable to contributions for various levels of excess:

Period of Excess in Weeks	New Reduction in Contribution %	Old Reduction in Contribution %
2	1.8	2.3
4	4.5	5.7
6	6.5	8.2
8	8.3	10.4
13	12.0	15.0

The Committee determined the excess arrangements for 1998-99 out of session. The Committee determined that the existing arrangements would continue to apply. The rate of percentage reduction offered from 1 January 1998 in exchange for a higher excess on weekly benefits continued to apply in 1998-99.

4.5 The Port Arthur Tragedy

The circumstances surrounding the Port Arthur tragedy in April 1996 and its aftermath will have a significant potential impact, both in human and financial terms.

As mentioned in Section 3.3 above, the Scheme carries catastrophe insurance to limit the financial impact of such tragedies by meeting the cost of claims that result from one “event”. The 1995-96 catastrophe policy was held with MMI and provides for unlimited cover with an excess of \$1 million - ie the Scheme must meet the first \$1 million in claims costs arising from an event, with any subsequent costs payable by the insurer.

Claims costs have exceeded the \$1 million excess. A method has been devised to allocate the \$1 million cost that the Scheme had to bear under the catastrophe policy among agencies participating in the Scheme. The Committee agreed that only those agencies that had incurred claims as a result of the tragedy should meet the excess and that the amount of the \$1 million excess that each affected agency should pay would be equal to the proportion of total costs incurred by each agency as a result of the tragedy to the total costs incurred by the Scheme as a result of the tragedy.

It was further agreed that this amount would be paid over three financial years ie 1997-98 to 1999-2000 - in addition to the contributions required of the agencies that incurred claims as a result of the tragedy.

The following table shows the additional contributions paid in 1998-99:

Department of Police and Public Safety	\$41 770
Department of Health and Human Services	\$13 200

The Department of Police and Public Safety and Department of Health and Human Services will be required to make an additional payments of \$41 770 and \$13 200 respectively in 1999-00. The Port Arthur Historic Site Management Authority has paid the full additional amount required.

At present, it is not possible to accurately predict the total cost of claims arising from the Port Arthur tragedy. The eventual total cost will not be known for a number of years. The vast majority of claims costs are likely to arise from claims made for stress-related conditions. At 30 June 1999, 82 workers’ compensation claims had been lodged with the Scheme in respect of the Port Arthur tragedy. At 30 June 1999, the estimated total cost of these claims was \$6.781 million. The amount paid on these claims was \$4.441 million, with outstanding case estimates of \$2.340 million.

MMI, as catastrophe insurer, has advised that there are a number of claims which MMI believe may not form part of the catastrophe claim made by the Scheme as a result of the Port Arthur tragedy. At present, discussions are continuing between MMI and the Scheme in order to resolve the matter.

4.6 Project for the Prevention and Management of Stress

In the 1995-96 Annual Report, it was reported that the Division of Employment Policy of the Department of Premier and Cabinet, would be implementing a research project into the causal factors of stress in the Tasmanian State Service and the relative merit of the interventions used to treat employees suffering from stress-related conditions.

That research, which was conducted by the University of Tasmania, has now been completed.

The results of the Stage 1 research showed that the largest cause of stress in the State Service was conflict, followed by work overload, followed by lack of control and exposure to traumatic situations. In many cases, employees reported that their conditions were due to a number of these causes. The research showed that most causes of work-related stress were within the control of agency managers.

The research also showed that the disputation of claims had increased significantly since 1 July 1992. The more severe the stress, the more likely the claim was to be disputed. Although approximately two thirds of claims had been disputed, the vast majority had ultimately been accepted. The claims that were disputed for the longest period were associated with the poorest outcome (ie in terms of return to work).

The results of the research also showed that in relation to rehabilitation, those employees who were referred to rehabilitation providers at an early stage had a better outcome than those employees who were referred later.

The Reference Group developed an implementation plan for the 19 recommendations arising from Stage 1 of the Project. During 1997-98, progress was made in regard to a number of the recommendations with seven of the recommendations being finalised. In particular, Recommendation No. 3, the development of an Information Pack for workers lodging claims was finalised. Recommendation No. 7 which involved the development of a Resource Kit for agencies on prevention strategies was also finalised. The Resource Kit was provided to agency representatives for implementation. A number of the recommendations which involved the Fund Administration Agent were addressed by the Executive Officer as part of the transfer of Scheme administration from MMI to FAI with effect from 1 July 1998. The remaining recommendations were finalised during 1998-99.

All of the recommendations of Stage 1 of the Project have been investigated by agency working groups and a number of policy recommendations, strategies and action plans have been developed. The report incorporating these policy recommendations, strategies and action plans was endorsed by the Committee at its meeting of 29 June 1999. The report will be distributed to agencies for implementation.

An integral part of implementation will be the training of managers in agencies in the prevention of stress and the rehabilitation of employees suffering from stress-related conditions. It is anticipated that a stress management training course, which will be coordinated by the Division of Employment Policy, will be offered to agencies in 1999-00. It is proposed that the impact of the project will be monitored through the provision of quarterly reports by Heads of Agencies on the incidence of stress-related claims within agencies and measures taken to reduce the incidence of stress. This reporting will be coordinated by the Division of Employment Policy.

4.7 Appointment of Fund Administration Agent for the Scheme

The Agreement with MMI to perform the functions of Fund Manager for the Tasmanian State Service Workers' Compensation Scheme expired on 30 June 1998. In September 1997, the Government decided that the Fund Manager contract for the Scheme for the two years from 1 July 1998 was to be determined through an open tender process. As a result of the tender process, FAI General Insurance was appointed as Fund Administration Agent for the Tasmanian State Service Workers' Compensation Scheme from 1 July 1998 to 30 June 2000.

A Working Party comprising agency representatives was established in March 1998 to deal with transitional matters arising from the transfer of Scheme administration from MMI to FAI and to develop the draft Agreement with FAI. The draft Agreement was developed with the assistance of the Crown Solicitor and signed by the Minister for Finance on 23 July 1998. FAI commenced Scheme administration from 1 July 1998. The Working Party met on a number of occasions during 1998-99 to discuss various transitional matters. In January 1999, there was a merger between FAI Insurance and HIH Insurance.

4.8 Implementation of Performance Standards for Self Insurers

The Workplace Safety Board has introduced comprehensive license conditions and performance standards for insurers in Tasmania. Although self insuring against its potential workers' compensation liabilities, the State Service is classified as an exempt employer and, as such, is not required to meet the license conditions and performance standards. However, the Committee has determined that, notwithstanding this classification, the Scheme should comply with the performance standards. The only way in which compliance can be assessed is through agencies and the Fund Administration Agent meeting the performance standards.

The Committee has determined that compliance with the performance standards will be assessed by Coopers & Lybrand (now known as Price Waterhouse Coopers). The Committee has endorsed the following approach:

- Price Waterhouse Coopers would conduct an initial review audit to assess policies and procedures. Six months later, Price Waterhouse Coopers would conduct a full audit.
- For both the initial review audit and the full audit, Price Waterhouse Coopers would first visit the Fund Administration Agent to perform as much of the work as possible and then visit a number of agencies to check the residual performance standards.
- Two agencies would be visited for the initial review audit and four agencies would be visited for the full audit.
- Price Waterhouse Coopers would issue a report to the Scheme on the result of its work after both the initial review and the full audit.

Price Waterhouse Coopers conducted the initial review audits in March 1999. Following an assessment of written procedures, Price Waterhouse Coopers commenced the review audit at HIH, then visited the Department of Health and Human Services and the Department of Justice and Industrial Relations. Following the review audit, an exit interview was conducted with HIH and both departments. Price Waterhouse Coopers provided a report to the Scheme following the audit. A copy of the audit report was provided to HIH, the Department of Health and Human Services and the Department of Justice and Industrial Relations for comment.

Full audits of HIH and four agencies will be conducted by Price Waterhouse Coopers in 1999-00.

5. MEMBERSHIP OF THE TASMANIAN STATE SERVICE WORKERS' COMPENSATION COMMITTEE

The members of the Committee as at 30 June 1999 were:

Philip Mussared	Department of Treasury and Finance (Chairman)
Pauline Camm	Department of Infrastructure, Energy and Resources
Robert Cockerell	Department of Treasury and Finance
David Cookson	Department of Health and Human Services
Greg Glass	Department of Education
Brian Harvey	TAFE Tasmania
Richard Hughes	Department of Police and Public Safety
Paul Leitch	Department of State Development
Greg McCrossen	Department of Primary Industries, Water and Environment
Richard Moyer	Department of Premier and Cabinet
Geoff Owen	Division of Employment Policy, Department of Premier and Cabinet
Paul Turner	Office of the Director of Public Prosecutions
David Vickery	Department of Justice and Industrial Relations

The advisers to the Committee as at 30 June 1999 were:

David Tadd	Department of Treasury and Finance (Financial)
Linda Urh	Department of Treasury and Finance (Executive Officer)

6. THE REPORT OF THE ACTUARY

In both the 1993-94 and 1994-95 Annual Reports, the Actuary's report drew attention to deterioration in the performance of the Scheme. However, since 1995-96, a number of indicators have suggested that the performance of the Scheme was improving. The Actuary advised that there were no adverse trends in the performance of the Scheme during 1997-98 and that the financial situation of the Scheme had continued to improve. The Actuary has advised that the trends and outcomes for the 1998-99 year were very favourable, in particular:

- the cost of claims was \$18.96 million in 1998-99 compared to \$21.7 million in 1997-98;

- the present value of the outstanding claims liability was \$47.2 million as at 30 June 1999 compared with \$49.6 million as at 30 June 1998;
- the balance of the Trust Account increased from \$29.990 million as at 30 June 1998 to \$46.75 million as at 30 June 1999; and
- the Scheme would be fully funded by 30 June 2000.

There are two factors which determine the total cost of claims made during a reporting period - the number of claims and the average cost of each claim. Since the Scheme commenced on 1 July 1989, the projected number of claims (claims reported plus an estimate of future claims in respect of the accident year) has trended down, but the average cost has more than doubled:

	Projected Number of Total Claims	Estimated Average Cost Per Claim \$
1989-90	3 457	3 657
1990-91	3 590	4 131
1991-92	3 397	6 040
1992-93	3 122	7 981
1993-94	3 120	10 058
1994-95	2 771	10 209
1995-96	2 458	10 013
1996-97	2 124	8 450
1997-98	1 908	9 440
1998-99	1 770 ¹	10 296

1. The actual number of claims reported as at 30 June 1999 was only 1 609 (including zero cost claims) but, based on past claims experience, a provision has been included for claims that will be reported after 30 June 1999.

These figures are based on actuarial calculations and vary slightly from the figures used in Section 4.2 which are based on case estimates made by the Fund Administration Agent.

In the 1995-96 and 1996-97 Annual Reports, a number of factors were identified as having contributed to the increase in average cost of claims. Further work has been carried out to identify these cost drivers during 1998-99. Table 1 in Appendix 6 shows the payments made in relation to weekly benefits, common law payments and stress-related conditions for claims in respect of injuries that have occurred since 1 July 1989. The figures relate to the period in which the payment took place, not when the injury leading to the payment occurred.

Weekly benefit payments remain the most significant cost driver of the Scheme. The amount paid in weekly benefits decreased from \$8.4 million in 1997-98 to \$6.5 million in 1998-99. However, weekly benefits represented 35% of total payments in both 1998-99 and 1997-98. Consequently, efforts by agencies to reduce this cost

through the implementation of effective rehabilitation programs, amongst other things, offer the greatest scope to reduce the total cost of claims.

As a percentage of total payments, common law payments have remained relatively constant. Common law payments comprised 31% of total payments in 1997-98 compared to 32% in 1997-98 and 31% in 1996-97. Common law payments contribute significantly to the cost of claims. The reason for the low amount of common law payments in the first three years of operation of the Scheme may be due to the fact that claims with a common law component take longer to settle than other claims. As a result, the final payments made in relation to common law claims in respect of injuries occurring in the period 1989-90 and 1990-91 were not made until later periods. The fact that common law payments contribute significantly to the overall costs of the Scheme highlights the need for agencies to robustly defend common law claims made by employees and to place a high priority on occupational health and safety to reduce the likelihood of such claims being made in the first place.

Payments for stress-related conditions, which include weekly benefit and common law payments, contribute significantly to the overall cost of the Scheme. Payments for stress-related conditions represented 27% of all payments made in 1998-99, which compares favourably to 34% of payments made in 1997-98. However, since 1995-96, although comprising only 8% of all claims reported to 30 June 1999, claims for stress-related conditions are estimated to account for 30% of total costs for that period, based on the case estimates of the Fund Administration Agent. Payments for weekly benefits comprise a significant proportion of the cost of claims for stress related condition, again highlighting the need for agencies to have in place effective rehabilitation programs.

As pointed out above, estimated average claim size has risen significantly since the Scheme commenced operation on 1 July 1989 - ie comparing one year against the next year. In 1996-97 and 1997-98, the estimated average claims costs did not rise significantly when compared with the estimated average cost for the previous year. In 1998-99, the estimated average claim costs decreased slightly for the most recent accident years. Table 2 in Appendix 6 illustrates this point.

The total estimated amount outstanding on claims in respect of injuries occurring during each period, regardless of when the claims were reported, is as follows:

	Payments \$	Estimated Outstanding \$	Total Estimated Cost \$
1989-90	12 848 411	499 755	12 643 035
1990-91	14 502 958	680 610	14 830 273
1991-92	19 525 460	1 604 621	20 517 183
1992-93	24 308 773	606 823	24 915 596
1993-94	30 139 604	1 240 158	31 379 762
1994-95	25 522 466	2 766 798	28 289 264
1995-96	19 659 144	4 953 522	24 612 666
1996-97	10 171 781	7 775 778	17 947 559

1997-98	6 818 668	11 193 355	18 012 023
1998-99	3 073 203	15 151 479	18 224 682

At 30 June 1999, the discounted value of the outstanding liabilities of the Scheme in regard to post 1 July 1992 claims is \$45.013 million.

The discounted value of outstanding liabilities in regard to pre 1 July 1992 claims (including the outstanding liabilities of the Scheme's predecessor, the Government Employers Workers' Compensation Scheme) at 30 June 1999 was \$2.184 million. Thus, the present value of the outstanding liabilities of the Scheme as at 30 June 1999 was \$47.197 million. This is the amount the Scheme would require to settle all outstanding claims costs as at 30 June 1999.

The Scheme was designed with the intention that it be fully funded. That is, the Scheme should have been building up reserves with which to meet the outstanding claims liabilities as they arose. However, as a result of consistently underestimating the cost of each accident year when setting agency contributions until 1995-96, this did not occur. In 1995-96, the process of establishing reserves was commenced with the overdraft at 30 June 1995 of \$4.7 million being fully repaid and the Trust Account having a balance of \$20 395 as at 30 June 1996. The process of establishing reserves has continued and, as a result, the Trust Account had a balance of \$46.75 million as at 30 June 1999. The Scheme will be fully funded by 30 June 2000.

7. ACKNOWLEDGEMENTS

The Committee would like to take the opportunity to express its appreciation to those who have provided assistance with the management of the Scheme during 1998-99. They are:

Benzulla Tasmania, the Scheme's Consulting Actuary:

Brian Benzulla, Director and staff

HIH Insurance Group, the Scheme's Fund Administration Agent:

Greg Mathews, Manager, Workers' Compensation, Tasmania

Greg Rowell, Claims Supervisor, Workers' Compensation, Tasmania, and staff

Deloitte Touche Tohmatsu, preparer of the Scheme's financial statements:

David Spinks, Audit Manager, and staff

The Office of the Director of Public Prosecutions

The Tasmanian Audit Office

Marsh Limited

Peter Wignall, Principal, and staff

APPENDIX 1

EXCESSES SELECTED BY AGENCIES FOR 1998-99

Agency	Period of Excess	Reduction in Contribution %
Education	1 week	0
Health and Human Services	13 weeks	12
House of Assembly	13 weeks	12
Infrastructure, Energy and Resources	13 weeks	12
Inland Fisheries	1 week	0
Justice and Industrial Relations	13 weeks	12
Legislative Council	1 week	0
Legislature General	1 week	0
Police & Public Safety	13 weeks	12
Port Arthur Historic Site Management Authority	1 week	0
Premier and Cabinet	1 week	0
Primary Industries, Water and Environment	13 weeks	12
Private Forests Tasmania	1 week	0
Retirement Benefits Fund Board	1 week	0
Royal Tasmanian Botanical Gardens	1 week	0
State Development	13 weeks	12
TAFE Tasmania	13 weeks	12
Tasmanian Audit Office	1 week	0
Tasmanian Dairy Industry Authority	1 week	0
Tasmanian Racing Authority	1 week	0
Treasury and Finance	13 weeks	12

APPENDIX 2

RATES AND CONTRIBUTIONS FOR AGENCIES PARTICIPATING IN THE TSSWCS FROM 1994-95 TO 1998-99

	1994-95		1995-96		1996-97		1997-98	
	Rate Per \$100	Contribution \$						
Audit	0.60	12 600	0.6000	10 752	0.85	147 120	0.70	12 397
Education	1.42	3 546 222	2.8500	7 200 468	3.76	10 133 509	3.808	10 709 010
Egg Marketing Board	1.30	2 600	0.9711	1 816	1.13	2 582	-	-
Environment and Land Management	0.95	420 000	2.100	607 362	2.32	589 113	2.529	681 110
Botanical Gardens					3.11	29 499	2.75	25 850
Inland Fisheries					2.12	23 580	1.69	20 534
Health								
Ambulance					10.78	823 322)	
Central	4.50	969 968	5.2000	1 035 788	2.73	451 288)	
North	2.60	1 943 786	3.8000	3 043 230	2.73	421 484) 6.006	17 559 021
North West	2.50	1 278 775	4.1500	1 697 890	5.28	2 216 239)	
South	3.30	4 870 605	4.6200	7 469 200	6.09	9 405 398)	
Hobart Regional Water Board	1.00	19 790	1.3000	26 520	-	-	-	-
House of Assembly	0.50	3310	1.3683	9 250	1.77	12 780	1.42	12 297
Justice	2.20	539 374	5.9715	1 522 605	9.00	2 348 737	7.143	1 984 683
Legislative Council	0.45	2 844	0.6329	3 810	0.85	6 052	0.70	5 194
Legislature General	0.85	9 350	3.0000	31 830	4.23	51 653	3.41	40 784
MAIB	0.40	4 400	0.6196	8 160	0.83	11 664	-	-
Metropolitan Transport Trust	3.50	488 110	5.4812	754 758	-	-	-	-

		1994-95		1995-96		1996-97		1997-98	
		Contribution	Rate Per	Contribution	Rate Per	Contribution	Rate Per	Contribution	
		\$	\$100	\$	\$100	\$	\$100	\$	\$
Police	2.75	1 417 185	5.0579	2 727 202	7.85	4 442 348	7.704	4 304 764	
Port Arthur Historic Site Management Authority	1.65	23 463	1.3000	22 659	1.77	19 176	1.31	39 863	
Premier and Cabinet	0.45	48 619	0.7983	96 578	0.96	147 607	0.76	128 303	
Primary Industry and Fisheries	1.05	228 270	1.6503	377 715	1.88	401 743	1.30	269 295	
Private Forests			1.80	11 106	2.56	20 777	2.03	15 530	
Professional Services Group	1.93	29 160	-	-	-	-	-	-	
Public Trustee	1.38	23 000	2.6000	44 200	-	-	-	-	
Retirement Benefits Fund	0.74	10 894	2.0000	63 020	2.89	93 617	2.42	90 875	
SES	-	-	-	-	-	-	-	-	
Tasmanian Dairy Industry Authority	0.40	2 680	0.6425	4 446	0.80	6 134	0.70	5 712	
Tasmanian Racing Authority	2.90	38 164	2.2000	32 098	2.10	33 021	1.69	22 477	
Tasmania Development and Resources	1.50	112 965	1.7500	112 018	2.56	67 804	2.05	44 690	
Tourism Tasmania	0.85	82 529	1.9317	195 890	2.50	172 781	1.95	142 409	
Transport	1.05	184 603	2.7000	545 238	3.48	636 350	2.46	447 892	
Treasury and Finance	0.83	85 400	0.8718	84 280	1.02	129 173	0.86	114 604	
Vocational Education and Training	0.95	407 000	1.7594	766 399	1.93	811 105	2.624	1 133 857	
Workplace Standards Authority	-	-	-	-	2.74	160 644	3.44	197 422	
Works Tasmania	6.46	691 230	-	-	-	-	-	-	
Total		17 496 896		28 520 394		33 816 300		38 008 573	

Note: The 1997-98 contributions are gross contributions and do not take into account reductions due to the selection of a higher optional excess.

1998-99

	Rate Per \$100	Contribution \$
Education	3.6059	11 169 816
Health and Human Services	5.3122	16 681 158
House of Assembly	1.0200	9 353
Infrastructure, Energy and Resources	2.0700	535 695
Inland Fisheries	1.4000	18 060
Justice and Industrial Relations	6.1516	1 675 573
Legislative Council	0.7000	5 502
Legislature General	3.2700	40 221
Police and Public Safety	7.3154	4 254 856
Port Arthur Historic Site Management Authority	1.8000	55 854
Premier and Cabinet	0.7500	122 648
Primary Industries, Water and Environment	2.1241	1 146 717
Private Forests Tasmania	1.4700	11 319
Retirement Benefits Fund	2.3400	87 676
Royal Tasmanian Botanical Gardens	3.0000	25 500
State Development	1.4000	174 897
TAFE Tasmania	2.1818	850 902
Tasmanian Audit Office	0.7000	10 983
Tasmanian Dairy Industry Authority	0.7000	5 705
Tasmanian Racing Authority	1.2400	10 500
Treasury and Finance	0.8500	107 545
Total		37 000 480

Note: The 1998-99 contributions are gross contributions and do not take into account reductions due to the selection of a higher optional excess.

APPENDIX 3

TASMANIAN STATE SERVICE WORKERS' COMPENSATION SCHEME TRUST ACCOUNT (T837)

Transactions for year ended 30 June 1999

	\$	\$
Opening Balance as at 1 July 1998		29 990 879
Receipts		
1998-99 Contributions	34 929 970	
1994-95 Agency Account Deficit Recoup	460 585	
Recoveries	1 370 463	
Port Arthur tragedy additional contributions	54 970	
Closure of MMI bank account	80 203	
Interest Received	1 822 085	
Total Receipts		38 718 276
Less Expenditure		
MMI - Fund Management	122 852	
FAI - Fund Administration	552 471	
Catastrophe Insurance	233 270	
Benzulla Tasmania - Actuarial Services	44 177	
Workplace Safety Board - Levy	839 791	
Deloitte Touche Tohmatsu - Accounts	13 000	
Audit Fees	9 860	
Miscellaneous	9 269	
Salary & other related expenses- Executive Officer	47 099	
Compensation Payments	20 087 248	
Total Expenditure		21 959 037
Balance of Account T837 as at 30 June 1999		46 750 118

APPENDIX 4

NUMBER AND COST OF CLAIMS FROM 1995-96 TO 1998-99 BY NATURE OF INJURY AS AT 30 JUNE 1999

	1995-96		1996-97		1997-98		1998-99	
	No of Claims	Estimated Cost \$	No of Claims	Estimated Cost \$	No of Claims	Estimated Cost \$	No of Claims	Estimated Cost \$
Industrial Deafness	0	0	0	0	4	77 940	3	27 500
Amputations	1	86	0	0	0	0	0	0
Multiple Injuries	4	23 490	0	0	4	5 545	3	26 343
Hernia	5	9 494	3	5 752	1	2 012	0	0
Dislocations	5	10 900	6	5 117	7	17 191	5	28 126
Internal Injuries	6	15 431	8	34 033	10	30 012	10	123 802
Respiratory Diseases	7	151 513	3	16 060	4	32 545	8	52 602
Dermatitis	23	8 862	12	4 025	5	3 411	15	33 410
Foreign Body	31	3 362	31	5 154	29	4 488	27	25 839
Burns	38	92 667	24	4 325	19	3 553	17	42 455
Poisoning	45	251 964	61	207 990	87	38 597	18	77 414
Muscle & Tendon Injury	46	333 845	37	338 086	33	245 926	24	303 168
Fractures	47	537 416	49	342 595	38	210 122	38	446 734
Other	79	1 256 820	46	298 654	37	298 560	66	991 931
Superficial Injury	119	352 889	136	254 549	94	34 821	181	287 258
Lacerations	198	130 749	134	110 652	136	58 124	60	233 780
Stress	220	7 227 754	178	4 418 863	156	4 223 585	113	1 922 252
Contusions	260	520 155	293	902 650	249	728 959	144	510 745
Sprains and Strains	1 321	11 361 719	1 099	7 166 387	985	6 342 715	874	6 895 686
Total	2 455	22 289 116	2 120	14 114 892	1 898	12 358 106	1 606	12 029 045

APPENDIX 5

**FINANCIAL STATEMENTS OF THE TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME FOR 1998-99**

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Operating Statement

for the Year ended 30 June 1999

	Notes	1999 \$'000	1998 \$'000
Agency Contributions & Recoveries	2	36 436	38 401
Outwards Reinsurance Expense		<u>(233)</u>	<u>(260)</u>
		36 203	38 141
Claims Expense	3	(17 765)	(28 188)
Other Underwriting Expenses	4	<u>(840)</u>	<u>(435)</u>
UNDERWRITING RESULT		17 598	9 518
Investment Revenue	2, 5	1 875	1 231
General Administration Expenses	6	<u>(123)</u>	<u>(155)</u>
OPERATING RESULT		19 350	10 594
Retained deficit at beginning of the financial year		<u>(24 085)</u>	<u>(34 679)</u>
Retained deficit at the end of the financial year		<u><u>(4 735)</u></u>	<u><u>(24 085)</u></u>

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Statement of Financial Position

as at 30 June 1999

	Notes	1999 \$'000	1998 \$'000
CURRENT ASSETS			
Trust Account	12	46 750	29 990
Receivables	7	<u>179</u>	<u>587</u>
		<u>46 929</u>	<u>30 577</u>
TOTAL ASSETS		<u><u>46 929</u></u>	<u><u>30 577</u></u>
CURRENT LIABILITIES			
Outstanding Claims	11	18 966	21 511
Creditors	8	875	1 079
Provisions	9	<u>3</u>	<u>3</u>
		<u>19 844</u>	<u>22 593</u>
NON-CURRENT LIABILITIES			
Outstanding Claims	11	<u>31 820</u>	<u>32 069</u>
		<u>31 820</u>	<u>32 069</u>
TOTAL LIABILITIES		<u><u>51 664</u></u>	<u><u>54 662</u></u>
Net Assets / (Liabilities)		<u><u>(4 735)</u></u>	<u><u>(24 085)</u></u>
EQUITY			
Retained Deficit		<u><u>(4 735)</u></u>	<u><u>(24 085)</u></u>

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Statement of Cash Flows

for the Year ended 30 June 1999

	Notes	1999 \$'000	1998 \$'000
Cash flows from operating activities			
Agency Contributions		36 897	41 392
Interest received		1 822	1 105
Payment of Outward reinsurance		(233)	(260)
Claims and Expenses paid		(20 087)	(21 995)
Fund Management Fees		(676)	(1 342)
Underwriting Expenses		(840)	(435)
General and Administration Expenses		<u>(123)</u>	<u>(162)</u>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES		<u>16 760</u>	<u>18 303</u>
NET INCREASE (DECREASE) IN CASH HELD		16 760	18 303
Cash at beginning of the Financial Year		29 990	11 687
CASH AT END OF THE FINANCIAL YEAR	12	<u><u>46 750</u></u>	<u><u>29 990</u></u>

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 1999

The Tasmanian State Service Workers' Compensation Scheme (TSSWCS) is a self-insurance arrangement established within the Tasmanian State Service to meet workers compensation claims made by employees of agencies of the Government of the State of Tasmania. The Scheme was established on 1 July 1989 and is intended to operate on a fully funded basis.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Compliance with Accounting Standards and other requirements*

The financial statements have been drawn up in accordance with Approved Accounting Standards, Statements of Accounting Concepts and other relevant requirements.

(b) *Agency Contributions*

Agency contributions comprise amounts required to be paid by participating agencies of the TSSWCS to meet the cost of claims made by their employees. The earned portion of the contributions received and receivable is recognised as revenue. The contribution is treated as earned from the date of attachment of risk.

(c) *Outwards Reinsurance*

Contribution ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received.

(d) *Claims*

Claims incurred expense and a liability for outstanding claims are recognised in the financial statements. The liability covers claims incurred, but not yet paid, incurred but not reported claims and the anticipated direct and indirect costs of settling those claims. Claims outstanding (and estimated, unnotified claims and settlement costs) are reassessed by the Fund Manager in consultation with an independent actuary.

The liability for outstanding claims is measured as the present value of the expected future payments, reflecting the fact that all the claims do not have to be paid out in the immediate future. The expected future payments are estimated on the basis of the ultimate cost of settling claims, which is affected by factors arising during the period to settlement such as normal inflation and "super imposed inflation". Super-imposed inflation refers to factors such as trends in court awards, for example increases in the level and period of compensation for injury. The expected future payments are then discounted to a present value at the balance

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 1999

date using discount rates based on investment opportunities available to the organisation on the amounts of funds sufficient to meet claims as they become payable. The details of rates applied are included in note 11.

	1999	1998
	\$'000	\$'000
2. OPERATING REVENUE		
Agency Contributions & Recoveries	36 436	38 401
Investment Revenue	1 875	1 231
	<u>38 311</u>	<u>39 632</u>
3. CLAIMS EXPENSE		
Claims Paid	18 045	22 058
Movement in Outstanding Claims	(932)	4 912
Management Expenses	652	1 218
	<u>17 765</u>	<u>28 188</u>
4. OTHER UNDERWRITING EXPENSES		
Payment to Workplace Safety Board	<u>840</u>	<u>435</u>
5. INVESTMENT REVENUE		
Interest on Trust Account	1 875	1 042
Penalties for Late Contributions	-	189
	<u>1 875</u>	<u>1 231</u>
6. GENERAL ADMINISTRATION EXPENSES*		
Actuarial Expenses	43	47
Accounting and Audit Fees	24	34
Salaries	56	74
	<u>123</u>	<u>155</u>

TASMANIAN STATE SERVICE WORKERS'

COMPENSATION SCHEME

Notes to and forming part of the Financial Statements

for the Year ended 30 June 1999

* Administration support provided without charge to the Scheme during the year is estimated at \$16 126 (1998 - \$14 951).

	1999 \$'000	1998 \$'000
7. RECEIVABLES		
Accrued Interest	179	126
Contributions Receivable from Agencies	-	461
	<u>179</u>	<u>587</u>
8. CREDITORS		
Unreimbursed Claims	750	930
Other	125	149
	<u>875</u>	<u>1079</u>
9. PROVISIONS		
Employee Entitlements	<u>3</u>	<u>3</u>
10. FINANCIAL INSTRUMENTS		

Interest Rate Risk

Financial instruments for the purposes of the Scheme are limited to Receivables, Creditors and the Trust Account investment. Creditors and Receivables of the Scheme are not subject to any interest rate risk. The Trust Account investment is subject to a variable interest rate, which resulted in an average interest rate for the year ended 30 June 1999 of 4.75%.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Scheme. The Scheme has the policy of only dealing with creditworthy counterparties. Therefore, the company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 1999

Net Fair Value

The carrying amount of the Trust Account investment approximates the net fair value due to its short maturity. Receivables are carried at nominal amounts due and Creditors are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Scheme.

	1999	1998
	\$'000	\$'000
11. OUTSTANDING CLAIMS		
The liability for outstanding claims is determined by the consulting independent actuary, Bendzulla Tasmania Pty Ltd.		
Expected future claims payments (undiscounted)	54 756	57 975
Less Discounted to present values	(3 970)	(4 395)
Liability for outstanding claims	50 786	53 580
Current	18 966	21 511
Non-Current	31 820	32 069
	50 786	53 580

The above figures include an amount of \$706 372 (1998 \$696 241) in respect of liabilities outstanding for pre 1/7/1989 claims and for which the Scheme has received special contributions from the Consolidated Fund prior to 1/7/1994. Amounts of the claims and contributions received are as follows:

Amount of pre 1/7/89 claims paid and estimated	9 502	9 277
Consolidated Fund Contributions to pre 1/7/89 claims	9 200	9 200

(a) The weighted average expected term of settlement from the balance date is estimated to be 1.765 years (1998 1.68 years)

(b) The following average inflation (normal and superimposed) rates and discount rates were used in measuring the liability for outstanding claims.

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 1999

	1999	1998
	\$'000	\$'000
Claims expected to be paid:		
Not later than one year		
Inflation rate	6.0%	6.5%
Discount rate	5.0%	5.0%
Later than one year		
Inflation rate – years 2 & 3	6.0%	6.5%
Thereafter	5.0%	5.5%
Discount rate	5.0%	5.0%

12. NOTES TO STATEMENT OF CASH FLOWS

(1) Reconciliation of Cash

Cash at the end of the financial year as shown on the statement of cash flows is reconciled to the related item in the Statement of Financial Position as follows:

Trust Account	46 750	29 990
	<u> </u>	<u> </u>

(2) Reconciliation of Net Cash provided by Operating Activities to Operating Surplus

Operating Result	19 350	9 992
Depreciation	-	1
(Increase)/Decrease in Agency Contributions	408	4 906
Increase/(Decrease) in Creditors	(204)	253
Increase/(Decrease) in Prepaid Expenses	-	7
(Increase)/Decrease in Claims Payable	(2 794)	3 144

Net Cash Inflow/(Outflow) from Operating Activities	<u>16 760</u>	<u>18 303</u>
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**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Notes to and forming part of the Financial Statements

for the Year ended 30 June 1999

13. TAX STATUS

The activities of the Scheme are exempt from taxation.

14. CONTINGENT ASSET

As a result of the Port Arthur Tragedy the Scheme gave notice to its insurer (MMI) of its intention to claim under its Excess Workers' Compensation Insurance Policy. This policy provides cover when an event, such as a catastrophe, occurs that is likely to give rise to a claim in excess of the self-insured retention.

The total estimated costs incurred in respect of Port Arthur claims as at 30 June 1999 was \$6 781 659 (1998 \$5 107 212) and total amounts paid to that date were \$4 441 175 (1998 \$2 595 293) (less the \$1 000 000 paid by the Scheme as its excess) with the estimated balance outstanding, subject to reimbursement by the insurer, being \$2 340 484 (1998 \$2 511 919) subject to the outcomes of the matters described in the following paragraph.

The insurer and the Scheme are currently in dispute regarding whether a number of Port Arthur claims should be covered by the catastrophe insurance. As a result of this dispute, the need for further investigations regarding some claims and possible legal proceedings the exact amount of the balance of outstanding Port Arthur claims cannot be determined.

**TASMANIAN STATE SERVICE WORKERS'
COMPENSATION SCHEME**

Financial Statements for the Year ended 30 June 1999

The accompanying financial statements of the Tasmanian State Service Workers' Compensation Scheme, have been prepared in compliance with the provisions of the Financial Management and Audit Act 1990 and are in agreement with the relevant accounts and records to present fairly the financial transactions for the year ended 30 June 1999 and the financial position as at 30 June 1999.

At the date of signing I am not aware of any circumstances which would render the particulars included in the financial statements misleading or inaccurate.

D W Challen

Secretary
Department of Treasury and Finance

Date:

APPENDIX 6**TABLES FROM THE REPORT OF THE ACTUARY****TABLE 1**

	Weekly Benefit Payments \$ million	Common Law Payments \$ million	Other Payments \$ million	Total Payments \$ million	of which Stress Payments \$ million
1989-90	1.482	0.000	0.755	2.237	0.000
1990-91	3.612	0.000	2.269	5.881	0.000
1991-92	6.557	0.089	3.890	10.536	0.754
1992-93	7.389	0.364	5.909	13.662	2.237
1993-94	9.218	2.098	5.807	17.123	4.348
1994-95	12.014	6.191	6.323	24.528	9.220
1995-96	11.889	7.343	6.410	25.642	10.170
1996-97	9.786	8.056	8.148	25.990	11.718
1997-98	7.948	7.382	7.556	22.886	7.778
1998-99	6.541	5.815	6.607	18.963	5.210

TABLE 2

	Actual Paid Per Claim as at 30.6.95	Est O/standing Per Claim as at 30.6.95	Total Est Cost Per Claim as at 30.6.95	Actual Paid Per Claims as at 30.6.96	Est O/standing Per Claim as at 30.6.96	Total Est Cost Per Claim as at 30.6.96	Actual Paid Per Claim as at 30.6.97	Est O/standing Per Claims as at 30.6.97	Total Est Cost Per Claim as at 30.6.97
	\$	\$	\$	\$	\$	\$	\$	\$	\$
1989-90	3 522	436	3 958	3 416	266	3 682	3 687	235	3 922
1990-91	3 558	886	4 444	3 737	463	4 200	3 948	198	4 146
1991-92	4 236	1 361	5 597	4 530	850	5 380	5 257	409	5 666
1992-93	5 056	2 282	7 338	6 090	1 348	7 438	6 990	832	7 822
1993-94	4 350	3 838	8 188	6 363	2 409	8 772	7 946	1 478	9 424
1994-95	1 561	3 995	5 556	4 650	4 334	8 984	6 850	2 956	9 806
1995-96	-	-	-	1 326	7 804	9 130	4 976	5 219	10 104
1996-97	-	-	-	-	-	-	1 390	8 810	10 200

	Actual Paid Per Claim as at 30.6.98	Est O/standing Per Claim as at 30.6.98	Total Est Cost Per Claim as at 30.6.98	Actual Paid Per Claims as at 30.6.99	Est O/standing Per Claim as at 30.6.99	Total Est Cost Per Claim as at 30.6.99
	\$	\$	\$	\$	\$	\$
1991-92	5 409	202	5 611	5 439	447	5 886
1992-93	7 405	418	7 823	7 786	194	7 981
1993-94	9 066	951	10 017	9 660	398	10 058
1994-95	8 250	2 022	10 272	9 211	999	10 209
1995-96	5 800	3 666	9 466	7 998	2 015	10 013
1996-97	3 042	6 120	9 162	4 789	3 661	8 450
1997-98	1 218	9 227	10 445	3 574	5 866	9 440
1998-99	-	-	-	1 736	8 560	10 296

This table excludes excess payments and includes recoveries received so far.