A.3 PERSONAL INJURY

Workers' Compensation

Modelling psychological claims separately

A.3.2 In view of the escalation in claim costs that have been emerging within the workers compensation risk area at recent reviews, since 30 June 2021 we have completed a detailed investigation into the claims data with the aim of identifying and understanding the underlying sources of these higher costs in greater depth. That analysis indicated that the incidence of claims for psychological injuries has increased notably, and has been a key driver of the escalation in claim costs over the past few years. The increased incidence of psychological injuries has a significant impact because of the large difference between the cost of claims for psychological injuries and the cost of claims for physical injuries. Based on the latest data and experience trends, we estimate the average claim costs (inflation adjusted to current dollar values, and before reductions for excess and GST) are around:

- Psychological: $153,000 per claim.
- Non-psychological: $24,000 per claim.

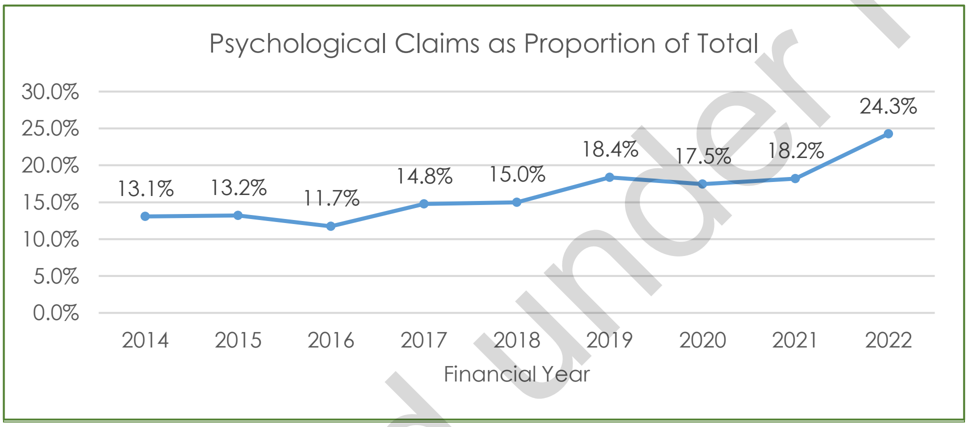
A.3.3 That is, we estimate that claims for psychological injuries are around six times more costly, on average, than claims for physical injuries.

A.3.4 The detailed investigation of the claims experience during 2021 also provided valuable insights into the underlying dynamics of how the changing claim mix has affected costs in this risk area. In particular, we also concluded that it is probable that a material portion of the ultimate cost increase associated with the recent changing claim mix may not yet have fully emerged in the claims data.

A.3.5 In view of this, to enable a better measurement of these potential costs that have yet to emerge, we have modelled the claims for psychological and non-psychological injuries separately at this review. This approach allows us to estimate the longer-term impact of the changing claim mix from recent accident periods more directly, and enables an earlier recognition of these higher costs before they fully emerge in the payments data.

Claims Experience

A.3.6 There has been a general trend for increasing incidence of psychological claims for a number of years, as illustrated in the chart below. The chart also shows that, since the 2018-19 year there has been a notable step up in the proportion of claims incurred that are psychological claims.



A.3.7 More recently, in the experience during the 6 months of to December 2021, we have observed a very significant further increase in the number of psychological claims. In that period, psychological claims have been around 24% of the total number of claims. We currently project 217 psychological claims for the half-year to 31 December 2021. This is more than 50% higher than the average number of psychological claims incurred over the 3-year period to 30 June 2021 (which was 140 claims per half year).

A.3.8 The extent and speed of the increase observed during the 6 months to 31 December 2021 is, in our view, highly unusual. Therefore, significant uncertainty surrounds the latest increase in psychological claim incidence: the underlying cause is uncertain, and it is also uncertain whether the high incidence of psychological claims will persist, revert to previous levels or increase further in the future.

A.3.9 We also note more generally that the increase in psychological injuries experienced by the TRMF in recent years is not inconsistent with experience that has been reported by the public sectors in other State jurisdictions. Reporting in other jurisdictions suggests that the public sector's share of psychological claims has been proportionally much higher than the relative size of its workforce. We further note that the TRMF's exposure to claims for psychological injuries in part reflects the nature of the activities engaged in by the Tasmanian State Service's workforce (which includes frontline workers such as police, health care and other emergency/public support workers).

Impact of changing claim mix on average claim costs

A.3.10 Due to the significant differences in cost between psychological and physical claims, relatively small changes in the claim mix can increase the overall average claim cost materially, as shown in the table below.

Psychological Claim Proportion	Overall Average Claim Cost ($)
18%	47,500
21%	51,300
24%	55,200

A.3.11 In the table, we have illustrated how the estimated average cost of claims (shown in current year dollar values, before reductions for GST and excess amounts) varies if we assume psychological claims are 18%, 21% or 24% of the total number of claims. A psychological claim proportion of 18% is broadly in line with that measured for the three years up to 30 June 2021. In contrast, a psychological claim proportion of 24% is consistent with the higher proportion observed in the claims experience in the 6 months to 31 December 2021. The table shows that a shift of about 6% in the psychological claim proportion could increase average claims costs by more than 16%.

A.3.12 Benefits for workers compensation claims (and in particular claims for psychological injuries) tend to be paid over a number of years. This means that changes in the claims mix may not be reflected in the payments data immediately, but gradually emerge over time as these claims mature and are paid out.

A.3.13 We therefore expect that payments made in future periods will continue to increase for some time, as the full impact of the higher psychological claims proportion in recent past periods gradually emerges in the payments data. The separate modelling of psychological claims at this review enables us to recognise the impact of the changing claims mix before these higher costs have fully emerged in the historical payments data. This has now become particularly important, in view of:

- The trend for higher psychological claim incidence over the past few years; and
- In addition, the very significant further increase in psychological claim numbers during the last 6 months.

General increase in cost of servicing claims

A.3.14 While the changing claim mix discussed above accounts for most of the sharp escalation in claim costs that has been observed for the Fund during recent periods, a moderate trend for generally higher costs remains, even after allowing for the changing claims mix. This is particularly true for psychological claims, where the experience suggests that continuance rates and costs are generally trending upwards. We have continued to recognise these higher costs at this review, as they emerge in the experience.

A.3.15 We further note that some of the benefit changes implemented in recent years, such as the presumption that PTSD is work-related and the removal of step downs for police officers, can potentially result in behavioural changes (such as higher continuance rates, as the incentive to return to work is reduced). This may lead to additional unanticipated costs that progressively emerge from these changes. We have not explicitly allowed for such developments in our modelling at this review, beyond what may already be reflected in the experience.

Data limitations

A.3.16 Since our 30 June 2020 valuation, we have observed evidence of significant wage reimbursement backlogs (ie. agencies have been delayed in seeking reimbursement for weekly benefit payments from the Fund). These backlogs have impacted our analyses, assumptions and conclusions at recent reviews of the Fund.

A.3.17 The wage reimbursement backlogs mean that the overall interpretation of the past experience is made more difficult, and therefore a substantial additional element of uncertainty is introduced into our valuation outcomes.

A.3.18 The impact of reimbursement backlogs can include:

- Material under-estimation of the Fund liabilities and underlying costs, because:
  - The number of active claims (those currently receiving benefits) is understated.
  - The observed continuance rates (meaning the proportion of active claims that remain active from one period to the next) appear lower than they actually are. If not identified and adjusted for, this may lead to lower assumed future continuance rates in our projection of the Fund's claim costs and outstanding liabilities.
  - Observed payment costs are lower than actual costs, which may affect our average cost assumptions, and the backlog itself (which remains a liability of the Fund) is not adequately accounted for in the liability measurement.
- When backlogs are rectified, depending on the timing, active claims and payments may also appear inflated in subsequent periods, and require adjustment.
- Considerable additional work is required to adjust for these limitations, eg. to estimate missing payments data, estimate missing active claim numbers, and adjust for distortions in trends when interpreting the claims experience and developing valuation assumptions.

A.3.19 Ultimately, these data issues interrupt and distort the flow of information back to DTF and agencies about emerging costs, which in our view significantly hampers

Treasury management's ability to respond to new developments in a timely and appropriate manner.

A.3.20 In view of the above, we recommend that DTF seeks to address these reimbursement delays with agencies as an issue of high importance.

Outstanding claims liability and funding position

A.3.21 We have estimated the outstanding claim liabilities at 31 December 2021 to be $207.429m. This has increased by around $49.754m since 30 June 2021 (when it was $157.675m) and has increased by around $57.467m since 31 December 2020 (when it was $149.962m).

A.3.22 The main factors that have increased the estimated outstanding claim liability at this review, compared to the 30 June 2021 review, were:

- The new modelling approach adopted at this review, which separately models claims for psychological and physical injuries. The results from our new modelling incorporate greater recognition of costs expected to arise from the changing claims mix towards psychological clams in recent periods, but which have yet to fully emerge in the historical claims experience;
- A significant increase in the number of psychological claims in the most recent 6 months, which has resulted in higher overall costs and outstanding liabilities;
- Updates to assumptions, reflecting the latest experience (which generally has continued to demonstrate an upward trend in continuance rates and payment costs, even after adjusting for the changing claims mix);
- Revisions to our assumptions and results reflecting retrospective data changes since our June 2021 review, due to agency wage reimbursement delays affecting the data extracted at that time;
- A higher assumed future claims inflation rate (increased from 3.25% pa to 3.5% pa);

[redacted]

- General inflationary growth in the liability; and
- Growth in the liability due to recent increases in risk exposure, including higher aggregate salaries and additional liabilities arising from legislative benefit changes in recent years (such as the removal of step downs for police officers).

A.3.23 These factors have been partly offset by a reduction to our claims handling expense assumption (from 3.00% to 2.50% of claims costs) and an increase in the discount rate (from 0.08% pa to 0.85% pa).

A.3.24 The funding position for all personal injury risks at 31 December 2021 (a shortfall of $111.104m) has deteriorated relative to the position estimated in the 30 June 2021 actuarial review (a shortfall of $73.614m) and the position estimated at 31 December 2020 (a shortfall of $66.672m).

A.3.25 The shortfall position of $111.104m does not account for the potential additional strain on the funding position that may arise in the second half of the 2021-22 accident year. We note that the projected claim costs for the first half of the 2021-22 accident year are significantly higher than our prior cost estimates, due to a significant and very sharp escalation in the number of psychological claims during this period. This is one of the factors causing the weakening in the funding level as at 31 December 2021. If this experience continues into the second half of the 2021-22 year, then we would expect a further strain on the funding position of around $13.5m.

Reasons for the weakening in the funding position

A.3.26 The factors that have contributed to the increase in the measured outstanding claims liabilities, discussed above, have also generally contributed to the weakening of the funding position at this review.

A.3.27 Therefore, the increase in the incidence of psychological claims (which has further escalated in the 6 months to 31 December 2021), and greater recognition of costs that have yet to emerge for these claims, together with significant adjustments for data limitations at prior reviews are the main reasons for the deterioration in the funding shortfall since the 30 June 2021 and 31 December 2020 reviews.

A.3.28 These factors have been partly offset by:

- The receipt of $9.6m in shortfall funding as part of the 2021-22 contributions;
- A reduction to the claims administration expense assumption (from 3.0% to 2.5% of claims costs); and
- An increase in the discount rate at this review (from 0.08% pa to 0.85% pa).

Additional Funding Arrangements

A.3.29 For this report, we have assumed that additional funding will be transferred into the Personal Injury risk area before 30 June 2022, which aims to fully address the current funding shortfall of $111.1m as at 31 December 2021, and also addresses the potential funding strain for the second half of the 2021-22 accident period if the heavier-than expected experience continues throughout 2021-22 (from which we estimate the additional strain would be about $13.5m). We have assumed the additional funding of $124.6m (=$111.1m + $13.5m) will include:

- A transfer of $20.0m from the current surplus for pre 1 July 2001 Medical Liability risks; and
- $104.6m in additional contributions from non-agency sources.

A.3.30 In our view, the additional funding obviates the need for a shortfall funding element in the recommended 2022-23 agency contributions, based on current cost estimates.

A.3.31 We also highlight the substantial uncertainty around our estimates of the funding level. This uncertainty arises from a number of sources, including the significant and evolving claim experience trends in recent periods, the impact of the WHSL program, the unknown impact of the Covid-19 pandemic, and the data limitations at the current and prior reviews, etc. These factors increase the level of uncertainty in our estimates above that which would otherwise apply for workers compensation risks. This means that there is increased risk that the additional funding could be more or less than is actually required to achieve a balanced funding position.

A.3.32 Nevertheless, the additional funding will make the Fund more resilient to further unexpected cost developments, and provide greater flexibility in managing the relative stability of agency contribution levels.