Australian Government

Comcare

PREMIUM MODEL REVIEW

In 2015–16 Comcare undertook a review of the premium calculation model and methodology to ensure that they support Comcare's objectives of providing value for money in a financially sustainable scheme and maximising agency engagement in reducing the cost of claims.

The premium model used for 2015–16 and prior provided satisfactory technical performance but it was complex in its structure and application. This complexity made it difficult for agencies to understand the link between their claims experience and premiums outcomes. This in turn was an obstacle to increasing agency engagement in reducing the cost of claims.

Comcare engaged independent actuaries, Taylor Fry, to carry out a significant portion of the work, including initial consultations with agencies and the Safety, Rehabilitation and Compensation Commission (SRCC) and the design and testing of the revised premium model. The final report from Taylor Fry was published on Comcare's website in mid-December 2015 and all scheme stakeholders were given the opportunity to provide feedback on the revised premium model.

The revised premium model was approved by the SRCC at their 9 March 2016 meeting and will be used to calculate your agency premiums for the 2016–17 financial year.

Advantages of the revised premium model

- A simpler model structure with fewer assumptions and fewer calculation steps
- Provides a clearer and more transparent link between your agency's claims performance and premiums which will make it significantly easier to understand and explain the causes of movements in premiums
- Expected to produce premiums that are more stable yet retain the appropriate responsiveness to changes in your agency's claims performance. As an example, the revised model addresses a weakness in the previous model where movements in claim frequency (either up or down) could have a significant impact on premiums, even if there was very little change in the total cost of claims, such as when the movement in claim frequency was due to a number of very small claims.

REVISED PREMIUM MODEL SUMMARY

As with the previous model the premium for your agency is the sum of the following three components:

1. **Prescribed amount**—your agency's contribution to the premium pool, which is the main component of your premium. It is calculated by multiplying your agency's prescribed rate by estimated payroll for the premium year

+

2. **Bonus/Penalty**—an adjustment to your agency's contribution to last year's premium pool. It is based on an additional year of claims data and updated claims performance for pre-existing injury years for your agency

+

3. **Additional margin**—your agency's share of an amount charged since 2013–14 specifically to recover past underfunding and restore the Comcare scheme to a fully funded position

1. Calculating the prescribed amount

Your previous prescribed amount

X

The pool trend:

> Reflects changes in the aggregate premium pool (as a percentage of wages) since the previous year and is based on the advice of Comcare's external actuaries

> Takes into account trends in claims experience across the scheme as a whole and ensures that the sum of all agency prescribed amounts is equal to the premium pool

X

Your performance adjustment:

> Reflects changes in your agency's performance relative to the overall scheme performance since last year

> Is based on a comparison of your agency's experience across the four most recent complete financial injury years[1] against your agency's performance benchmark

= Your prescribed amount

The following are the sub-steps in the calculation of your performance adjustment.

Your risk relativity

> Reflects the expected risk for your agency relative to scheme average when your previous prescribed amount was set

> Is the ratio of your agency's previous prescribed amount to the previous scheme average rate.

Your performance benchmark

> Reflects the performance that was expected when your previous prescribed amount was set

> Is set by considering the claims experience (i.e. incurred cost rate) for the scheme as a whole over the four most recent complete financial injury years[1] and multiplying this by your agency's risk relativity.

Your performance ratio

> Reflects the claims experience of your agency (i.e. incurred cost rate) relative to your performance benchmark before the application of your size factor to adjust for the volume of claims experience.

Your size factor

> Is based on your agency's payroll size and risk relativity and is used in the calculation of your performance adjustment to give greater weight to larger volumes of claims experience

> Means that premiums for an agency with relatively high dollar cost of claims will be more responsive to changes in their claims experience than premiums for an agency with relatively low dollar cost of claims

> Is set by considering the avergae payroll for your agency over the four most recent complete financial injury years[1] and multiplying this by your agency's risk relativity.

A minimum premium rate is set to ensure that each agency's premium, at a minimum, covers their estimated share of Comcare's fixed administrative expenses in running the scheme.

1. The period of claims experience used to calculate the 2016–17 prescribed amount will be 3.5 years. This is a transition arrangement for 2016–17 only and a period of 4 years will be used thereafter.

A calculation example: prescribed amount for 2016–17

The following tables set out the calculation of the prescribed amount for 2016-17 for a hypothetical agency.

This first table provides the inputs to the premium model calculations:

Inputs provided	Numeric value	Notes
Agency prescribed rate 2015-16 (excl. GST)	**2.78%**	**Agency's prescribed rate for previous year**
Scheme average rate 2015-16 (excl. GST)	1.85%	Reflects estimated lifetime cost of claims, claims management costs and uncertainty margin
Scheme average rate 2016-17 (excl. GST)	1.78%	Reflects estimated lifetime cost of claims, claims management costs and uncertainty margin
Agency incurred cost rate in reassessment window	1.81%	Agency's estimated lifetime cost of claims as % of payroll for claims incurred in 1 January 2012 to 30 June 2015
Scheme incurred cost rate in reassessment window	1.45%	Scheme's estimated lifetime cost of claims as % of payroll for claims incurred in 1 January 2012 to 30 June 2015
Agency average payroll in reassessment window	$20,000,000 p.a.	Average payroll for 1 January 2012 to 30 June 2015

This second table represents the steps in the prescribed amount calculation process:

Calculation steps	Numeric calculation value	Notes
Pool trend factor **= 1.78%/1.85%**	**96.0%**	**The premium pool (as % of payroll) has decreased by 4.0% since 2015–16**
Agency risk relatvity = 2.78% / 1.85%	150.0%	The agency's prescribed rate for 2015–16 was 50% higher than scheme average
Agency performance benchmark =1.45% x 150%	2.18%	The agency's benchmark is 150% of the scheme performance to reflect their risk relativity
Agency performance ratio = 1.81% / 2.18%	83.3%	The agency has outperformed their benchmark by 16.7% before applying the size factor
Agency size factor = ($20m x 150%) / (($20m x 150%) + $50m)	37.5%	The agency's performance is given a weighting of 37.5% to reflect their payroll size and risk relativity. The $50m is a fixed factor across all agencies.
Performance adjustment factor **= 1 + 37.5% x (83.3% – 1)**	**93.8%**	**The agency has a favourable performance adjustment of 6.2% after applying the size factor**
Agency 2016–17 prescribed rate **= 2.78% x 96.0% x 93.8%**	**2.50%**	

Shaded rows correspond to the calculation steps on page 2.

2. Calculating the bonus/penalty

The revision of your 2015–16 prescribed amount for the purpose of bonus/penalty calculations will be performed using the previous premium model as a transitional arrangement.

In subsequent years your bonus/penalty will be calculated using the following formula:

Your previous prescribed amount **X**
(Your performance adjustment – 100%)
= Your bonus/penalty

The performance adjustment factor used to calculate your bonus/penalty will be the same as that used to calculate your prescribed amount.

3. Calculating the additional margin

The additional margin represents the amount that Comcare charges to agencies to restore the scheme to full funding. It is allocated in proportion to prior year prescribed amounts. The premium model review did not include either the process for setting the level of the additional margin or the method of allocation between agencies and these remain unchanged.

A NEW TOOL TO CALCULATE AGENCY PREMIUMS

In May 2016 Comcare will introduce a spreadsheet-based tool that sets out the detailed steps and formulae used to calculate your premiums. This tool will allow you to understand the calculation of your premium in greater depth and will also assist you to undertake basic scenario testing to quantify the impact of changes in your cost of claims and/or payroll on your premiums.

KEY DIFFERENCES FROM THE PREVIOUS PREMIUM MODEL

The key differences between the previous and revised premium model are:

	Previous model	Revised model
Claims experience measures	Separate analysis of claim frequency and average claim size.	Analysis of reported incurred cost (i.e. the combined effect of claim frequency and average claim size).
Allowance for Incurred But Not Reported (IBNR) claims	Agency claims experience measures reflect ultimate incurred cost, i.e. reported incurred cost plus an explicit allowance for the cost of claims that have been incurred but not yet reported or accepted (i.e. IBNR claims).	Agency claims experience measures reflect reported incurred cost only and do not include an allowance for the cost of IBNR claims.
Reassessment window	Premiums are impacted by claims experience over the four most recent complete calendar injury years.	Premiums are impacted by claims experience over the four most recent complete financial injury years (NB: a window of 3.5 years will be used for 2016-17 as a transition arrangement).
Rate revision process	Premium rate for the current year is calculated by starting with the revised premium rate from four years prior. Updated claims experience is used to revise the premium rates for the three intervening years and to determine the current year prescribed rate.	Premium rate for the current year is calculated by starting with the initial premium rate from last year. Updated claims experience is used to determine the current year prescribed rate.
Size/credibility factor	Eight separate size/credibility factors (i.e. one factor for claim frequency and one factor for average claim size for each calendar injury year in the reassessment window).	A single size factor applied to the agency's reported incurred cost performance relative to benchmark.
Minimum premium rate	No minimum premium rate	A minimum premium rate is set to ensure that each agency's premium, at a minimum, covers their estimated share of Comcare's fixed administrative expenses in running the scheme.

There have been no changes to the following aspects from the previous premium model to the revised premium model:

> The approach used to cap and re-spread the costs of individual claims

> The allocation of administration expenses in proportion to expected future claims costs

For more information about the revised premium model or your agency's premium contact:
Premium.help@comcare.gov.au or call (02) 8218 3792.