COMCARE PREMIUMS

Your guide

Australian Government

Comcare

PREMIUM SETTING PROCESS

Guidelines

Under the *Safety, Rehabilitation and Compensation Act 1988* (SRC Act) Comcare determines the amount of annual premium each entity pays each financial year. The determination of entity premiums is made by Comcare's Chief Executive Officer (CEO) and considers:

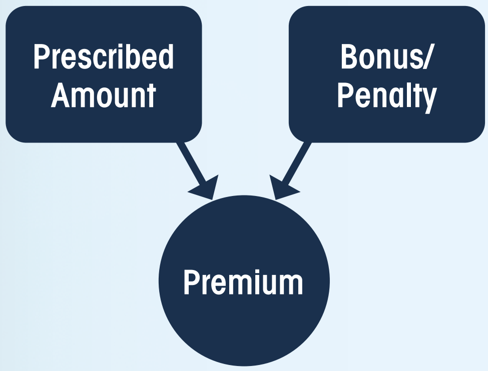
> relevant legislative requirements including any guidelines issued by the Safety, Rehabilitation and Compensation Commission (SRCC), and

> the CEO's obligations as the Accountable Authority under the *Public Governance, Performance and Accountability Act 2013*.

Premium Principles

The final premium pool ('premium pool') is the total premium to be charged across all entities in the Comcare insured scheme in respect of forecast claims from injuries and diseases sustained in the financial year. It is set at a level to fully fund the forecast lifetime cost of claims for the financial year, including related claims management costs (i.e. the 'estimated liability component' and 'estimated management component' as defined in the SRC Act).

The premiums for your entity respond to general trends in both the premium pool and your entity's claim performance. This provides a direct financial incentive for you to reduce your entity's workers' compensation costs through effective work health and safety measures and rehabilitation and return to work programs. Comcare works with entities to return employees with workplace injuries or diseases to work and health as soon as possible, thereby helping to reduce claims liabilities and premiums.



Comcare calculates the premium for your entity as the sum of two components:

1. Prescribed amount – your entity's contribution to the premium pool for the financial year, which is the main component of the premium. It is calculated by multiplying your entity's prescribed rate by your entity's estimated payroll for the financial year.
2. Bonus/penalty – an adjustment to your entity's contribution to the prior year's premium pool. It is based on an additional year of claims data and updated claims performance.

Forecast overall insured scheme performance

> Independent actuaries forecast the lifetime cost of claims arising from injuries and diseases sustained in the financial year for the overall insured scheme, including claims management costs.

> It is based on analysis of claims performance up to the previous December.

Set the final premium pool

> Comcare sets the pool to fully fund the forecast lifetime cost of claims arising from injuries and diseases sustained in the financial year.

> It includes an uncertainty margin to reflect both the inherent uncertainty in the forecast of the cost of claims and Comcare's ability to cover this uncertainty using the insured scheme's assets.

Determine entity prescribed amounts

> Each entity's prescribed amount is their share of the final premium pool, based on the movement in the premium pool, their recent claims experience and estimated payroll.

> Prescribed amount = prescribed rate x estimated payroll.

> Prescribed rate = prior year's prescribed rate x pool trend x performance adjustment.

> The pool trend adjusts the prior year's prescribed rate for the changes in the final premium pool.

> The performance adjustment adjusts the prior year's prescribed rate for changes in the entity's claims performance relative to the overall insured scheme. It assesses the forecast lifetime cost of individual claims using costs paid to date plus an estimate of likely future costs. It is based on analysis of claims performance up to February.

Determine entity bonus/penalty adjustments

> Each entity's share of the prior year's final premium pool is adjusted for changes in their claims performance relative to the overall insured scheme as reflected in their performance adjustment.

> The entity's prior year's prescribed rate is revised using the entity's performance adjustment. The difference between revised and initial prior year's prescribed rate is multiplied by the prior year's estimated payroll to determine the bonus/penalty.

> This achieves a fairer allocation of the prior year's premium pool between entities by reflecting changes in claims circumstances and late receipt of claims.

Indicative premium notice

> Indicative prescribed amount (based on prior year's payroll adjusted for inflation) and final bonus/penalty are advised in April.

Final premium notice

> The final prescribed amount using the entity payroll estimate is advised in July.

Actual payroll adjustment

> At the end of each financial year your entity provides the actual payroll outcome for the previous financial year. Comcare adjusts the premium amount to reflect the actual payroll.

Step 1: Forecast overall insured scheme performance

The overall insured scheme performance is analysed by Comcare's independent actuaries using claims experience up to the end of December preceding the financial year. This analysis provides a basis to set assumptions and develop forecasts for the cost of claims for the overall insured scheme arising from injuries and diseases expected to be sustained in the financial year, including related claims management costs (i.e. the 'estimated liability component' and 'estimated management component' as defined in the SRC Act).

Step 2: Set the final premium pool

The premium pool is set at the level required to fully fund the forecast lifetime cost of claims arising from injuries and diseases sustained in the financial year, including related claims management costs.

The final premium pool is the sum of:

> the forecast lifetime cost of claims arising from injuries and diseases sustained in the financial year, including related claims management costs (the outcome of step 1); plus

> an uncertainty margin, if required, to reflect potential variance between the forecast and actual lifetime cost of claims for the financial year and Comcare's ability to 'fund' this uncertainty using the insured scheme's assets.

The long-term nature of claims in the insured scheme means that any forecast of the cost of claims is inherently uncertain. To safeguard against this uncertainty, Comcare may include an uncertainty margin in the final premium pool.

The independent actuaries estimate an uncertainty margin in the forecast cost of claims underlying the premium pool at a level that provides a 75 per cent probability of sufficiency. The uncertainty margin may be adjusted by Comcare, either up or down, to reflect the ability to 'fund' this uncertainty using the insured scheme's assets (as assessed by the funding ratio).

Step 3: Determine entity prescribed amounts

The prescribed amount for your entity is your entity's share of this year's final premium pool. It responds to trends in your entity's claims performance, as well as trends in claims performance across the overall insured scheme.

The prescribed amount is calculated as your entity's prescribed rate (see further details below) multiplied by your entity's estimated payroll for the financial year.

The premium model determines your entity's prescribed rate (which is expressed as a percentage of payroll) as follows:

Your entity's prior year's prescribed rate × **Your entity's performance adjustment** = **Your entity's prescribed rate**

The pool trend:

> reflects change in the final premium pool (as a percentage of insured scheme payroll) since the prior year and is based on the advice of Comcare's independent actuaries

> considers trends in claims experience across the overall insured scheme and ensures that the sum of all entity prescribed amounts is equal to the final premium pool

> if the final premium pool (as a percentage of insured scheme payroll) has decreased since the prior year, the pool trend factor will be less than 100 per cent, which means the amount to be distributed across all entities will be higher – this can have an impact on your premium. Conversely if the final premium pool has increased, the pool trend factor will be greater than 100 per cent, which means the amount to be distributed across all entities will be lower.

The performance adjustment:

> reflects changes in your entity's performance relative to the overall insured scheme performance since the prior year's prescribed rate was set

> is based on a comparison of your entity's experience for accepted claims with a date of injury in the four most recent complete financial years (the `reassessment window') against your entity's performance benchmark (i.e. what was expected when your entity's prior prescribed rate was set)

> gives greater weight (and greater responsiveness) to larger volumes of claims experience and vice versa – this balances the need for premiums to respond to changes in performance with the need to provide stability and minimise unnecessary volatility from year to year

> if your entity has achieved an improvement in claims experience relative to the overall insured scheme since last year the performance adjustment factor will be less than 100 percent. Conversely, if your entity's claims experience has deteriorated, the performance adjustment factor will be greater than 100 per cent.

The calculation of your entity's prescribed amount is set out in your entity's Premium Calculation Notice. The following sections describe the assessment of your entity's claims performance as part of this calculation.

Forecasting the incurred cost of individual claims

The performance adjustment factor is set while some accepted claims in the reassessment window are still in the early stages of their development. Consequently, the premium model places a significant amount of reliance on estimates of the likely future costs of each claim (also referred to as the 'case estimate') as well as the amount paid to date. The sum of these two amounts (i.e. the case estimate and the costs paid to date) are referred to as the incurred cost of the claim.

At the time a claim is accepted, the incurred cost is based on limited claim information. This includes the age, gender, normal weekly earnings, type of injury or disease and the period between evident injury or disease and claim acceptance for the injured employee. The incurred cost at the time of acceptance can only reflect average outcomes of previous comparable claims. Over time, additional information emerges and other factors will be reflected in the incurred cost including:

> the employee's cumulative time off work and the pattern of time off work (number and length of periods);

> whether the employee is currently at work or off work, and how long that has been the case;

> whether the employee is on a graduated return to work program (including the number of hours spent at work each week);

> the employee's pattern of medical and rehabilitation costs, and

> whether a third-party recovery action has been initiated and the progress of that action.

The assessment of claims performance becomes more reliable as additional information about claims and their incurred cost emerges. The incurred cost may increase or decrease for a claim over time, depending on the changing pattern of actual costs and time off work.

It is important to note that Comcare's case estimate model is intended to produce reliable estimates of the future cost of claims for groups of claims considered in aggregate (e.g. all the accepted claims for your entity). There are limitations on the model's ability to accurately forecast the future costs of an individual claim in isolation.

Updating the forecast incurred cost of claims

The forecast incurred cost for claims with a date of injury in a given financial year is included in the performance adjustment factor calculation over four successive premium cycles. For example, injuries that occurred in 2020–21 are initially assessed for premium calculations for 2022–23 and then reassessed in calculations for 2023–24, 2024–25 and finally for 2025–26 premiums. This process ensures that entities have a continuing incentive to support employees with workplace injuries or diseases with rehabilitation and return to work programs as premiums respond to the ongoing development of the claims.

Minimum prescribed rate

The premium model includes a minimum level for your entity's prescribed rate, which is set to ensure that each entity, at a minimum, pays a premium that covers their estimated share of Comcare's fixed administrative expenses incurred in running the insured scheme.

Step 4: Determine entity bonus/penalty adjustments

The bonus/penalty is an adjustment to your entity's contribution to last year's premium pool. It reflects your entity's 'performance adjustment' (i.e. changes in claims performance relative to the overall insured scheme since your entity's prior year's prescribed rate was set).

The bonus/penalty, by recognising more recent claims experience, achieves a fairer allocation of the prior year's premium pool between entities. It provides a direct financial incentive for entities to continue to target improved claims outcomes through effective rehabilitation and return to work programs.

The bonus/penalty is calculated by revising your entity's prior year's prescribed rate using your 'performance adjustment' and multiplying the difference between the revised and initial prior year's prescribed rate by the prior year's estimated payroll.

Updated claims experience reflected in bonus/penalty

When the prescribed rate for a year was set it was based on your entity's claims experience as at 28(9) February for claims with a date of injury up to 30 June of the prior year. This ensured that the claims performance was of sufficient maturity and reliability for premium setting purposes.

Your entity's bonus/penalty revises the prescribed rate one year later based on your entity's latest claims performance (i.e. claims experience a year later) thus reflecting an additional year of maturity and development.

In revising the incurred cost of claims for prior financial years, the bonus/penalty adjustment reflects the effectiveness of your entity's programs to manage rehabilitation and return to work. The success of return to work programs is a key driver in reducing the ongoing cost of claims. In addition, reassessments of past financial years may also reflect the late acceptance of claims or late receipt of information. Some or all of the change for a past financial year may be due to claims for injuries or diseases that have a date of injury in that financial year but were only accepted after the prior year's prescribed rate was set.

Step 5: Indicative premium notice

Comcare undertakes the determination of the prescribed rates for entities during March. These prescribed rates are multiplied by the prior year's estimate of payroll adjusted for inflation to determine the indicative prescribed amount. At the same time, the revision of prior year's prescribed rates are undertaken to determine the bonus/penalty adjustment.

These outcomes are communicated to entities in the indicative premium letter in April.

Step 6: Final premium notice

Comcare receives updated estimates of payroll from entities during the May-June period and the updated payroll is multiplied by the prescribed rate to calculate the final prescribed amount. This final prescribed amount is communicated to entities in July, along with the bonus/penalty adjustment (which is not impacted by current year payroll estimates and is unchanged from the indicative premium letter).

Step 7: Actual payroll adjustment

At the end of each financial year your entity provides the actual payroll outcome for the previous financial year. Comcare adjusts the premium amount to reflect the actual payroll. The adjustment amount is calculated as the difference between the actual and estimate payroll multiplied by the revised premium rate for your entity.

Comcare sends the adjustment amounts as part of the premium invoicing for the coming financial year.

Payments and Reviews

Comcare will send each entity a premium notice requiring payment within 30 days of the issue date, whichever is the later. Comcare charges interest at the rate prescribed in the SRC Act on any amount not paid by the due date.

Within 14 days of the premium notice, the principal officer of the premium paying entity may, by written notice of objection, request Comcare to review the premium. The notice of objection must set out the grounds of the objection and should be addressed to:

Chief Executive Officer Comcare
GPO Box 9905
Canberra ACT 2601

Comcare will review the premium and notify the entity whether the amount is confirmed or varied. Within 14 days of that advice, the principal officer may, by another written notice of objection, request the SRCC to review the premium.

An entity's request for a review of its premium does not alter the due date for payment of the premium. If a review reduces a premium, Comcare will refund the difference with interest.

FURTHER INFORMATION

You can monitor your entity's claims performance through Comcare's Customer Information System (CIS) and use Comcare's online Premium Calculation Tool to understand how changes in your entity's future experience will flow through to your entity's premium outcomes (see www.comcare.gov.au). You can discuss your entity's premium, claims experience or management of individual cases by emailing the Employer Account Management team at EAM@comcare.gov.au

The Framework for Setting Premiums is available on www.comcare.gov.au. This publication describes the overall framework under which Comcare determines the premium pool and sets entity premiums.

GLOSSARY

Term	Definition
Bonus/penalty	The adjustment to your entity's prescribed amount for the prior financial year to reflect updated claims performance data. A negative amount indicates a bonus (an improvement in expected claims cost) while a positive amount indicates a penalty.
Estimated liability component	The estimated amount of Comcare's liability in the financial year and subsequent financial years in respect of the number of injuries that Comcare estimates will be suffered during the financial year by employees of your entity.
Estimated management component	The estimated amount of Comcare's claims management costs in the financial year and subsequent financial years in respect of the number of injuries that Comcare estimates will be suffered during the financial year by employees of your entity.
Final premium pool ('premium pool')	The total premium to be charged across all Commonwealth entity in the Comcare insured scheme in respect of forecast claims from injuries and diseases sustained in the financial year. It is set at a level to fully fund the forecast lifetime cost of claims for the financial year, including related claims management costs.
Funding ratio	The value of the assets held by Comcare for the insured scheme divided by the estimated liabilities of the Insured scheme.
Incurred cost	The sum of payments to date and estimated likely future costs for accepted claims. This excludes any allowance for claims administration expenses, uncertainty margin or inflation and discounting.
Performance adjustment	The change in your entity's claims performance relative to the overall Insured scheme since the prior year's prescribed rate was set. This is determined by comparing your entity's claims experience for claims with a date of injury in the reassessment window with what was expected when your entity's prior year's prescribed rate was set.
Pool trend	The change in the final premium pool (as a percentage of payroll) since the prior financial year. This ensures that the sum of the prescribed amounts for all entities equals the final premium pool for the current financial year.
Prescribed amount	Your entity's share of the final premium pool.
Prescribed rate	Your entity's prescribed amount expressed as a percentage of your entity payroll.
Reassessment window	The four most recent complete financial years at the time of calculating the performance adjustment, i.e. for 2022–23 premiums it is financial years 2017–18, 2018–19, 2019–20 and 2020–21.
Uncertainty margin	A margin included, if necessary, in the final premium pool to allow for the inherent uncertainty in the forecast lifetime cost of claims for the overall insured scheme.

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