

Witness Presentation Peter McCarthy

Theme 1 – Trade offs

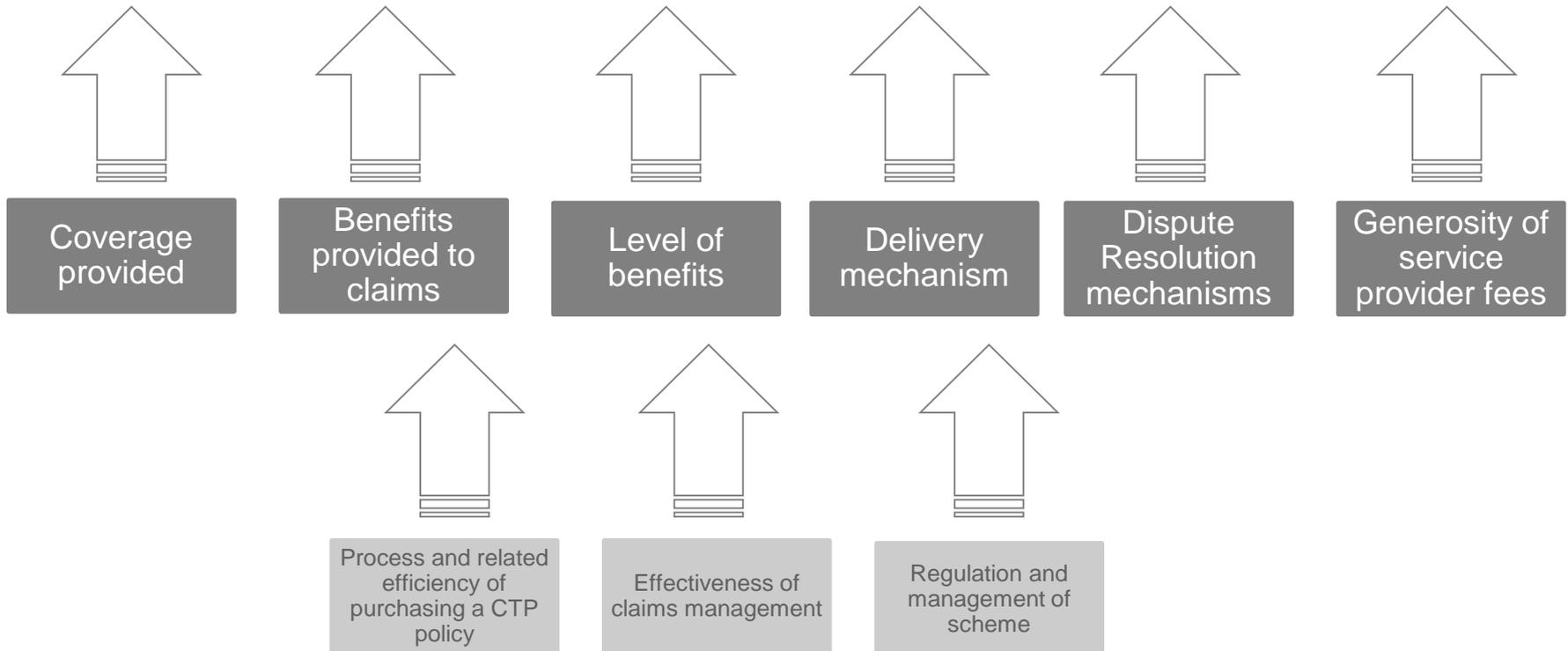
28 October 2017

Introduction

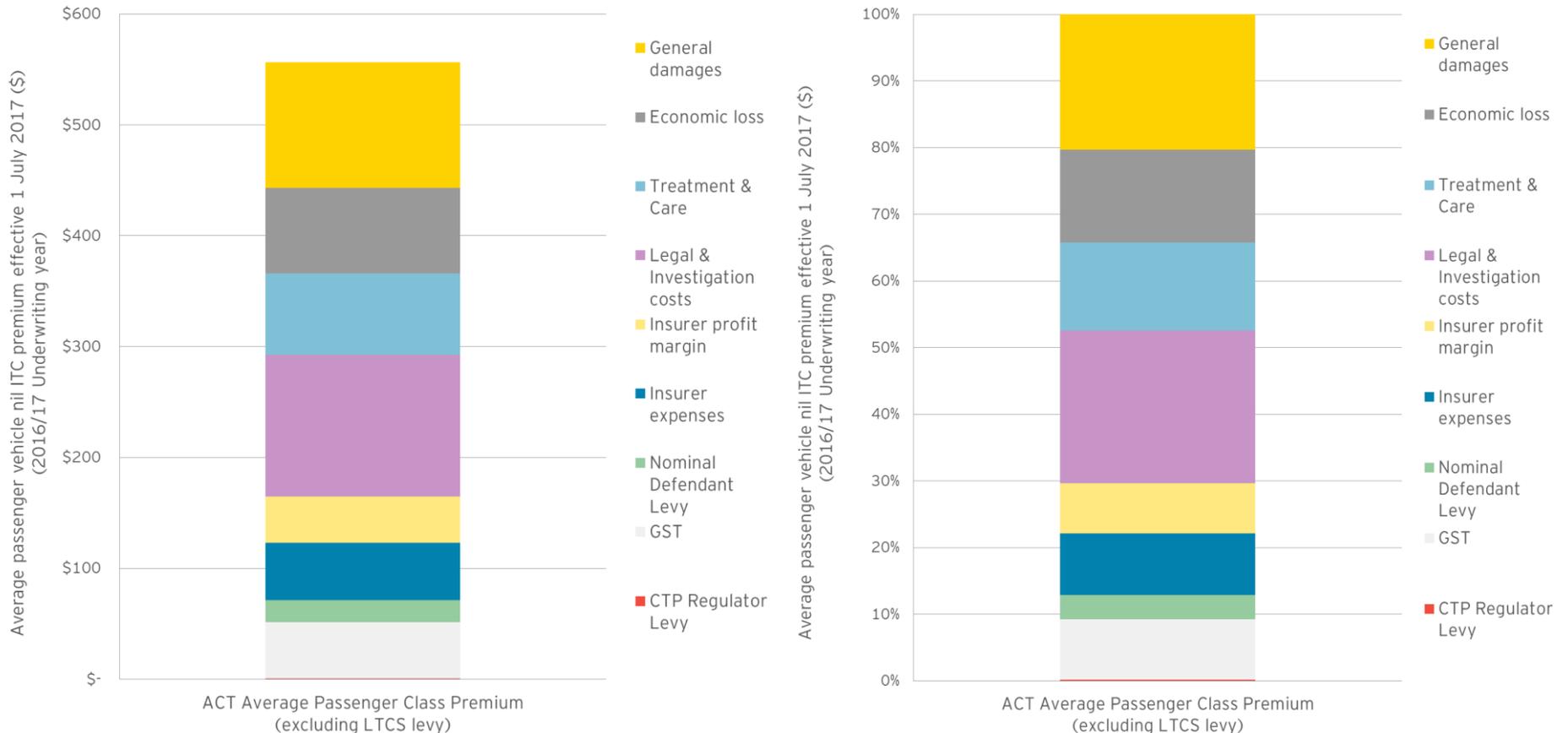
- ▶ Scheme design has a major impact on behaviour of stakeholders and service providers – many examples exist
 - ▶ This is important in assessing costs in a revised scheme design
- ▶ Key metrics to measure trade-offs (common ones) in relation to scheme premiums/costs; examples include:
 - ▶ Affordability of premiums
 - ▶ Efficiency of scheme – i.e. % of benefits going to claimants
 - ▶ Proportion of benefits paid to serious injuries vs minor injures
 - ▶ Speed at which claimants receive benefits
 - ▶ Number of disputes, speed of resolution
 - ▶ Qualitative ones are difficult to gather data on
- ▶ Changes to scheme also need to be considered from perspectives other than financial ones – e.g. service to claimants

Premiums and scheme costs

Premium and scheme costs



Current scheme costs



- ▶ We expect about 33% to 40% of casualties in the ACT are at-fault (AF)
- ▶ The proportion is still being analysed

Examples of design options/cost impact

Indicative figures only to provide an order of materiality

- ▶ Note the use of claims costs not benefit cost since changes to benefits also impact service delivery costs
- ▶ Each change cannot be considered in isolation as there are interaction effects (behavioural) - these are not included in the following tables - direct impact on legal costs is included below; no allowance for change in insurer costs and GST included
- ▶ Change to some benefits also require other changes, for example to claims process, dispute resolution processes, legal fees and treatment and care fee levels
- ▶ **Changes in claims cost are indicative only; actual changes may lie outside the range indicated as exact costs depend on detailed design**

Design item	Design option	Illustration of ball park costs per policy
Coverage	<p>Including at-fault claims increases premiums</p> <ul style="list-style-type: none"> ▶ Cost of not at-fault claims needs to reduce to avoid higher premiums ▶ The greater the cost of at-fault benefits the greater the required reduction in not at-fault claims costs 	<ul style="list-style-type: none"> ▶ Full defined benefits for treatment, care & loss of earnings (80% loss of earnings) - <u>add</u> \$50 to \$100 ▶ Capped loss of earnings benefits like Victoria - <u>add</u> \$30 to \$65 ▶ Limited benefits (e.g. NSW) - <u>add</u> \$20 to \$30 <p>Assumes a largely administrative dispute resolution system</p>
Reduce premiums	Reduce cost of not at-fault claims - reduction depends on level of at-fault claim benefits	Costs set out in other design items below
<p>Benefits provided/delivery mechanism (not at-fault claims only)</p> <p>Mix of common law vs defined benefits options</p> <p>Associated legal and dispute resolution cost savings are included</p>	Restrict access to general damages (to more serious injuries) e.g. as NSW, Vic. No change to other benefits	Depending on the threshold may <u>save</u> \$75 to \$125 (inclusive of legal costs)
	Only allow access to common law for general damages and loss of earnings (Vic, NSW). Treatment and care is paid on a reasonable and necessary basis for life	<p>Depends on medical fee level. May <u>save</u> \$40 to \$70 (including savings in legal fees - significant proportion of saving is legal costs)</p> <p>Assumes a largely administrative dispute resolution system for treatment and care</p>
	Only allow access to common law for loss of earnings for more serious claims (e.g. NSW workers compensation). Loss of earnings for other claims as a defined benefit while treatment and care is paid on a reasonable and necessary basis for life and no general damages paid at common law or as a defined benefit	<p>Depends on medical fee levels. May <u>save</u> \$150 to \$250 (including savings in legal fees)</p> <p>Assumes a largely administrative dispute resolution system for treatment and care</p>

Examples of design options/cost impact

Indicative figures only to provide an order of materiality

- ▶ For defined benefits there a number of variations to the design which result in different costs - some examples are given below - these are changes to the design in the previous slide
- ▶ Within a common law model, regulation of legal fees can be effective at reducing costs, e.g. NSW

Design item	Design option	Illustration of ball park costs
Level of defined benefits (not at-fault claims only) Many potential variations (costs exclude cost of disputes)	Loss of earnings - Income replacement ratio e.g. 100% instead of 80% of earnings (assume paid until retirement age)	May <u>increase</u> costs \$20 to \$40 (excluding any increased costs from other benefit types). There is a significant potential behavioural impact
	Time limits on benefits based on severity of injury - e.g. threshold for accessing treatment and care benefits after 5 years	May <u>save</u> \$15 to \$25 (excluding any savings from other benefit types)
	Include lump sum statutory benefits (e.g. Victoria) in addition to ongoing loss of earnings, treatment and care benefits	Depends on level of benefits and eligibility (e.g. all claims vs serious claims - Vic style levels may <u>increase</u> cost \$5 to \$15)
Dispute system (not at-fault claims only) for defined benefits	Defined benefits - full legal involvement Instead of administrative with little legal involvement	May <u>increase</u> costs \$5 to \$40, depending on the benefit and dispute model and related behavioural change
Service provider fees (not at-fault claims only)	Defined benefits - Medical providers fee levels as an example NSW vs Vic fee levels	Victoria fee levels may <u>save</u> \$15 to \$30
	Common law - Legal fees in current ACT common law scheme e.g. NSW - no solicitor-client fees for small claims < \$50k)	May <u>save</u> \$7 to \$15 - this saving is only due to change in behaviour of plaintiff lawyers and claimants. There is no change to the benefit entitlements of claimants (this design change in NSW resulted in fewer small claims and lower legal costs for small claim)

Other important issues to consider

- ▶ **What does not have a significant impact on scheme claims costs, some examples:**
 - ▶ Cap on weekly loss of earnings
 - ▶ Weekly and treatment excesses
 - ▶ Cap on maximum general damages
 - ▶ Lifetime care/treatment for minor severity claims
 - ▶ Claims management costs
 - ▶ Regulation of scheme

- ▶ **What to be wary of:**
 - ▶ Thresholds/gateways that are subjective – they tend not to contain costs long term
 - ▶ While they normally are lower don't assume defined benefits will cost less than common law
 - ▶ Lawyers do more than just deal with legal issues
 - ▶ Benefit designs that encourage poor claimant and service provider behaviour
 - ▶ Don't assume what works in one scheme will work as well in ACT
 - ▶ The detail of scheme design does matter

Reliance and limitations

- ▶ **The costings shown in this document are indicative only; actual costs could be significant higher or lower than the ranges given depending on the detail benefit design for each option. No allowance has been made for interaction effects between various design options. No allowance has been made for change in insurer costs and GST**
- ▶ It is essential that any reader of this document understands its associated qualifications and limitations.
- ▶ There is always uncertainty associated with actuarial estimates. Estimates of future claims experience (claim numbers and payments) are inherently uncertain because they depend on the outcome of future events that cannot be forecast precisely. Examples of influences on claims experience that are particularly challenging to forecast include changes to social, economic and legal environments. Therefore, actual claims experience may emerge at levels higher or lower than the actuarial estimates.
- ▶ When dealing with legislative reforms, the degree of uncertainty is higher due to the changes in behaviour of claimants and service providers, and this is difficult to predict. While we have assumed plausible changes in behaviour, other relevant assumptions could also be chosen. The emerging costs of any product design also depend on how well the changes are implemented, and how effectively claims are managed.
- ▶ In undertaking these costings, reliance has been placed upon publicly available data as well as data provided to us by the ACT government, NSW government and the Victorian Transport Accident Commission. We have reviewed this information for reasonableness, but without independent audit or verification. With regards to data relating to claims in the ACT we are specifically relying on the accuracy by which insurers have provided their data and classified appropriate payment types and that this allocation has been accurate over time.
- ▶ We have made judgements and estimates where the information required was not available.
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