



Institute of Actuaries of Australia

ACCIDENT COMPENSATION SEMINAR

CHANGING TIMES – CONTINUING NEEDS 20 – 22 NOVEMBER 2011 • SOFITEL BRISBANE



Costs risks in the Proposed National Injury Insurance Scheme

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Purpose

To identify the major risks in a potential NIIS scheme and discuss the options for managing them using the Lifetime Care & Support Scheme in NSW as a case study.



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- Key unique Scheme feature
- Description of cost risks
- NIIS comparison with LTCS Scheme
- Lessons from the LTCS Scheme



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LTCS Scheme Overview

- 2006 LTCSS introduced. 2007 fully operational
- No-fault catastrophic motor accident injuries occurring in NSW
 - Brain injuries - about 80% of participants
 - Spinal injuries - about 20% of participants
 - “Other” injuries (e.g. burns, amputees)
- Preliminary assessment of eligibility at early stage
- Final eligibility test at two years (children 16 years)
- Participant accepted into LTCSS for life
 - Care, medical expenses, home modifications, support costs **are met**
 - Loss of earnings and general damages **not met**
- Lifetime Care Coordinator appointed – sets tailored care plan



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LTCS Scheme Overview

- Disputes for eligibility/care assessment decisions
 - LTCS Authority appoints people to assess the appeal from a panel
 - No legal process
 - Supreme Court appeals to dispute administrative decisions
- Main observations re decision making processes for eligibility into Scheme and care assessment are:
 - How critical the eligibility guidelines are to manage the costs of Scheme
 - Importance of how the level of care is decided upon.
 - Strong correlation between management of process and ultimate cost Scheme
- Funded via a levy on CTP greenslips



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Key unique Scheme feature

- Very long tail nature of the liabilities
 - Average term < 5 years (TAC is about 10)
 - LTCS Scheme term is about 23 years
 - Introduces unique financial management challenges
 - Additional layer of uncertainty in estimating costs of the Scheme

Impact on Outstanding claims and premiums

% wage/investment earnings change	NSW CTP Scheme	LTCS Scheme
1%	4%	25%
2%	8%	50%
3%	12%	75%



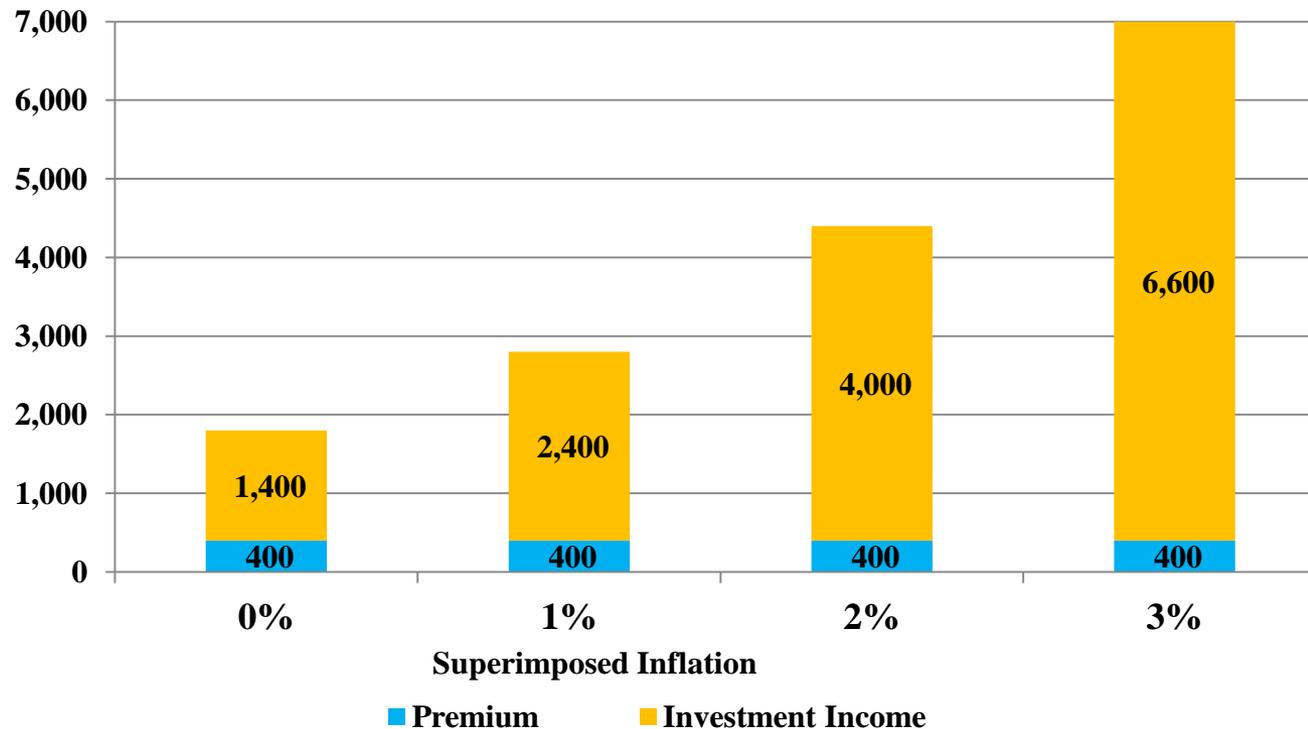
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Key unique Scheme feature

Impact of Superimposed Inflation on Claim Payments (\$m)





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Key unique Scheme feature and implications

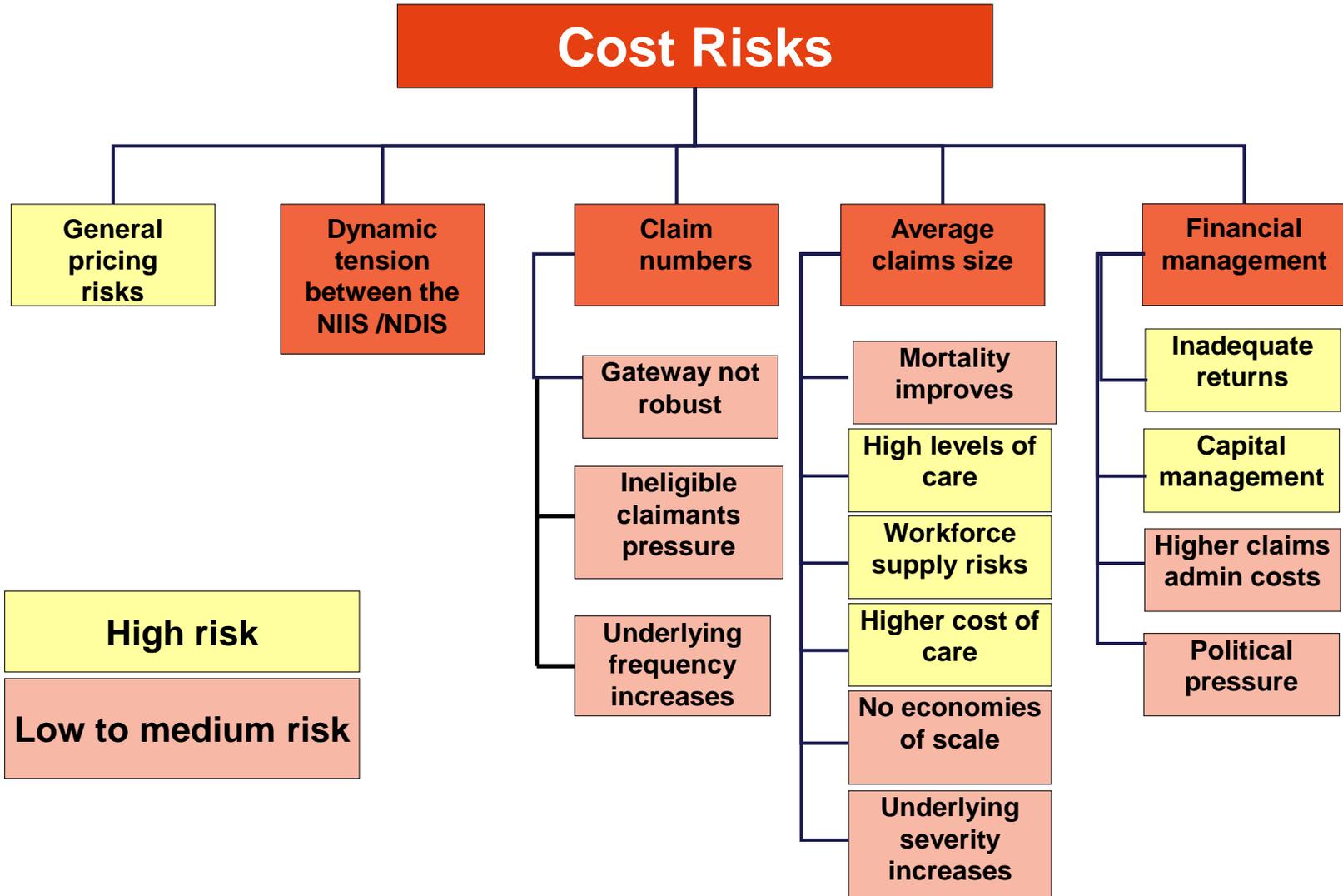
- Investment policy
- Volatile financial results
- Capital management policy
- Managing care costs



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NIIS comparison with LTCS Scheme

- Coverage
 - No-fault catastrophic injuries - motor vehicle, workplace, medical treatment, criminal injury & general injury – except cerebral palsy
 - SCI, TBI, severe burns, blindness and general category based on Functional Independence Measure
 - Coverage prospective
- Benefits
 - Provided on reasonable & necessary basis
 - Medical & treatment, rehabilitation plus all proposed NDIS benefits



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NIIS comparison with LTCS Scheme

- Funding
 - Fully funded except possibly of partial funding - general / criminal injuries
 - Sources
 - Levy on CTP premiums
 - Other transport levies
 - Levy on council rates covering criminal & general injury
 - Contribution from hospitals + medical indemnity premiums for treatment
- Governance
 - Federation of separate state-based schemes
 - Consistent criteria, benefits & assessment tools
 - Consistent scheme reporting and shared data
 - National reinsurance arrangement for high risks
 - States create a secretariat to further scheme objectives & point of contact with NDIS



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NIIS key risks

- Care assessment - requires clarity of benefits
 - Detailed & prescriptive guidelines
 - Good assessment tools
 - Good case managers
 - Coordinators and reviewers to approve care in accordance with guidelines
- Cost of care greater than assumed
 - PC recognised this as key issue
 - Needs to be monitored and dealt with at Commonwealth level
 - Consider alternative solutions to meet demand
 - Realistic assumptions for care cost inflation to recognise demand for carers
- Inflation assumptions and investment earnings
 - Long term view but short term volatility (e.g. investment returns)
 - Mark to market valuation not as important as long term



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Lessons from the LTCS Scheme - Coverage

Risk	Mitigation
1. Pre-existing conditions/non-related injury related co-morbidities increase care needs	<p>Take person as find them</p> <p>Limited specialists to manage mental illnesses</p> <p>Mental illness in NDIS creates demarcation with NIIS</p>
2. Definition of ‘catastrophic’ injury needs to provide certainty for eligibility to entry scheme	<p>Strong diagnostic tests limit risk – eg LTCSS using interim participant & finalising decision at 2 years</p>
3. Definition of treatment injury requires certainty in area where there is long litigation history	<p>More work needed to settle entry criteria & assessment system for medical injury</p>
4. Mechanism of injury identified in broad terms	<p>Requires agreed definitions</p> <p>Definitional & transitional issues to be agreed and implemented through state legislation</p>



Lessons from the LTCS Scheme - Benefits

Risk	Mitigation
<p>1. Need to be clearly defined for costing & to exclude from common law. Some problem areas are</p> <ul style="list-style-type: none">• Over servicing for medical/rehab/aids & appliances• Demarcation between what is available from LTCSS & common law• Disputes about substituted services & domestic assistance	<p>LTCSA experience suggests detailed guidelines required for some areas</p> <p>Clarity in relation to exclusions as well as inclusions is needed</p>
<p>2. Reasonable & necessary test for benefits requires assessment tools & well qualified assessors</p>	<p>Guidelines & assessment tools for most areas of benefits in place for LTCSS</p> <p>Real risk is quality of contractors (case managers & staff) such as LTCSA care coordinators</p>



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Lessons from the LTCS Scheme - Funding

Risk	Mitigation
<p>1. Amount of funding is insufficient. Funding levels depends on assumptions for</p> <ul style="list-style-type: none"> • number of participants especially the number of high severity • Assessed needs by injury severity • Cost of providing care & support • Inflation – wage plus superimposed • Investment earnings 	<p>Incidence data – access to health data on injury severity required for other states</p> <p>Level of assessed need – requires assessment tools to predict & prescribe care needs relative to injury severity</p> <p>Cost of care is a critical issue – increase carers cost - aged care and NDIS demand</p> <p>Economic assumptions - careful monitoring</p>
<p>2. Need for full funding queried by PC beyond motor vehicles and medical treatment</p>	<p>Some accident comp schemes adopted PASYG funding</p> <p>PASYG funding creates significant risks as investment in interventions & innovation to produce downstream savings are curtailed</p>
<p>3. Variety of funding sources & collection mechanism will need top be settled</p>	<p>To be determined in Commonwealth/state discussions around NDIS/NIIS</p>

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Lessons from the LTCS Scheme - Governance

Risk	Mitigation
<p>1. Federated model will create variation in Need to be clearly defined for costing & to exclude from common law. Some problem areas are</p> <ul style="list-style-type: none"> • Over servicing for medical/rehab/aids & appliances • Demarcation between what is available from LTCSS & common law • Disputes about substituted services & domestic assistance 	<p>LTCSA experience suggests detailed guidelines required for some areas</p> <p>Clarity in relation to exclusions as well as inclusions is needed</p>
<p>2. Reasonable & necessary test for benefits requires assessment tools & well qualified assessors</p>	<p>Guidelines & assessment tools for most areas of benefits in place for LTCSS</p> <p>Real risk is quality of contractors (case managers & staff) such as LTCSA care coordinators</p>



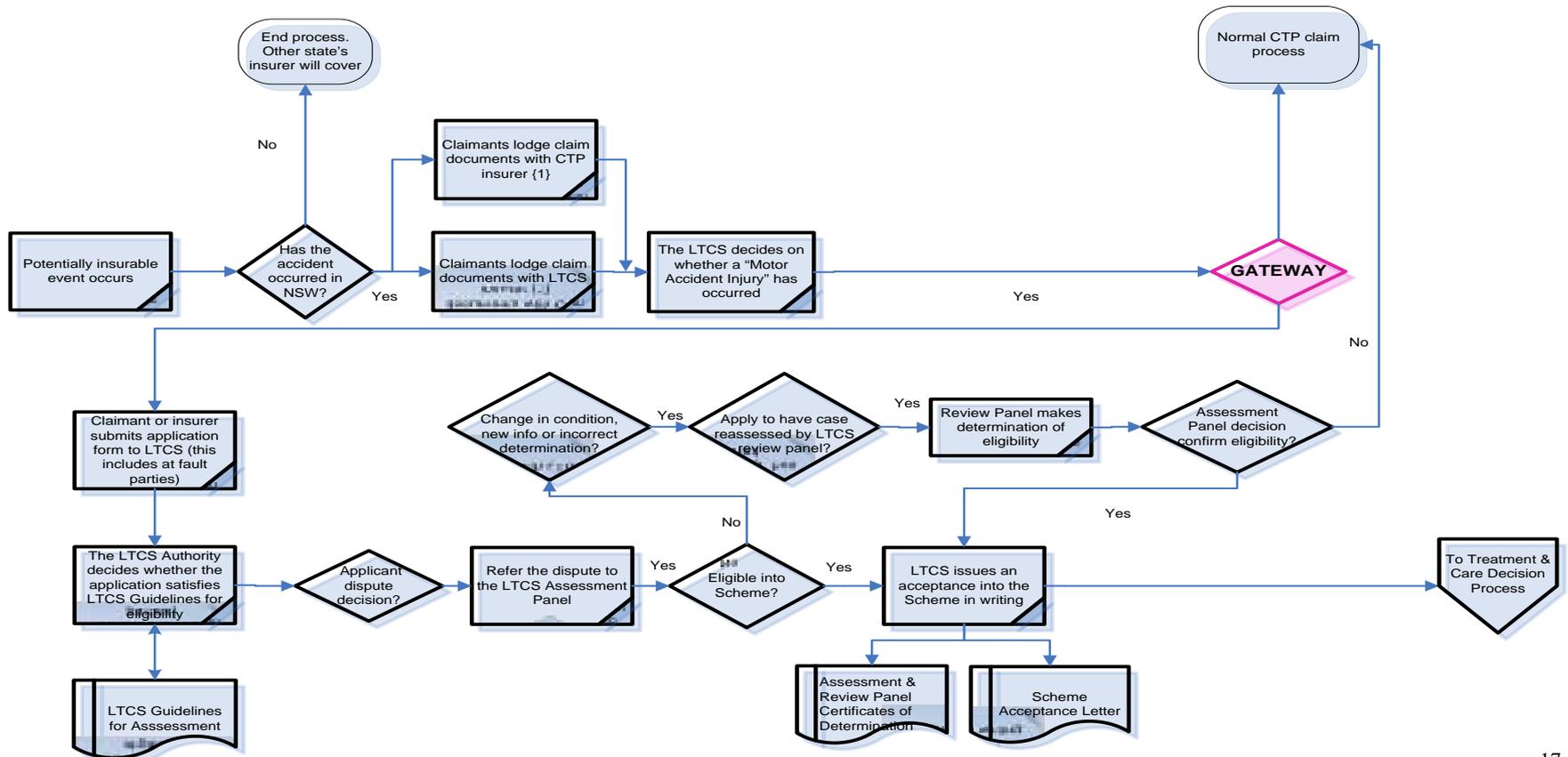
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Appendix A - LTCS Scheme – eligibility process



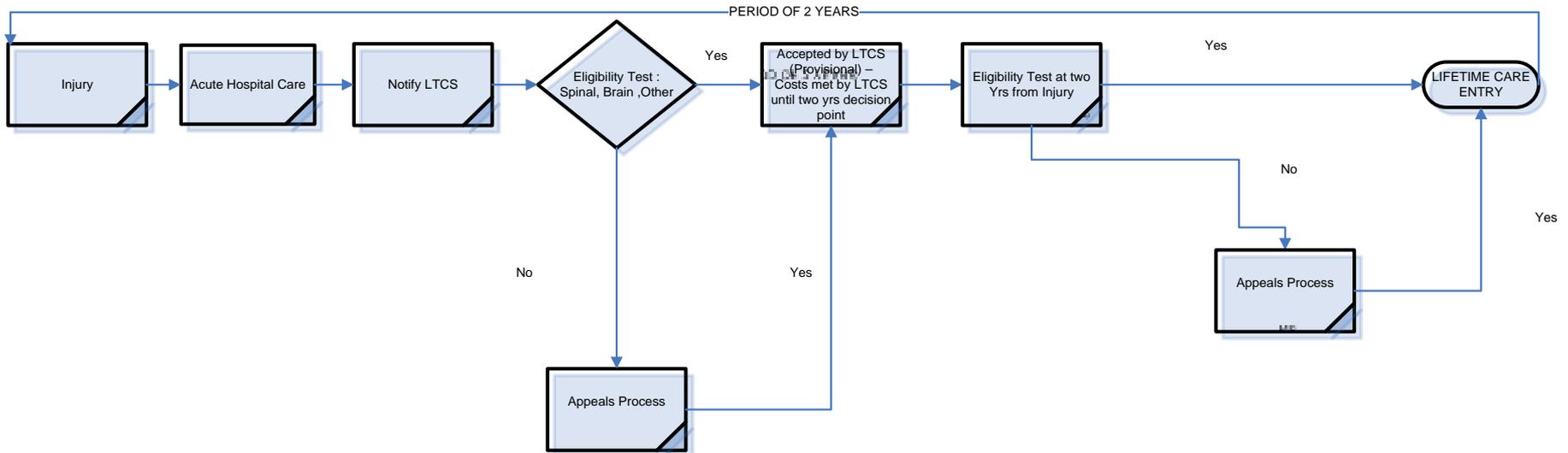


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Appendix A - LTCS Scheme – care decision process





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Appendix B – Description of Cost Risks

Cost Risk Number and Description	Risk Impact
1. The levy proves to be inadequate as the pricing is subject to general risks which exist in pricing any new scheme - <i>“general pricing risks”</i>	High
2. Injured persons learn the NIIS Scheme and seek the highest benefit, lawyers push claimants out of NIIS Scheme, insurers push claimant into NIIS Scheme - <i>“dynamic tension between the NIIS and other compensation schemes”</i>	Low to Medium
3. <i>Claim numbers.</i> Entry gateway into the NIIS Scheme is defined too broadly and allows more than the expected number of claims - <i>“gateway not robust”</i>	Medium
4. <i>Claim numbers.</i> Ineligible claimants place political pressure on the NIIS to be admitted - <i>“ineligible claimants pressure”</i>	Low to Medium
5. <i>Claim numbers.</i> Underlying frequency of injuries increases over time and is higher than expected (e.g. due to more survivors as a result of technology advances)- <i>“underlying frequency increases”</i>	Low
6. <i>Average claims size.</i> Injured persons live longer than expected partly because of technology improvements and lifestyle choices - <i>“mortality improves”</i>	Low
7. <i>Average claims size.</i> The expectations of injured persons for care and lifestyle improvements are higher than what is priced and this places upwards pressure on claim payments - <i>“higher levels of care provided to participant’s”</i>	High
8. <i>Average claims size.</i> Unable to attract high calibre staff (carers, etc) to implement the Scheme and manage it on an on-going basis. This will also result in poorer care and support being delivered - <i>“workforce supply”</i>	High



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Appendix B – Description of Cost Risks

Cost Risk Number and Description	Risk Impact
9. Average claims size. Cost of care increases at a higher level than allowed for in pricing from either cost of care (i.e. hourly rate paid to carers increases more than expected). This risk is partly a consequence of risk 8 above- <i>“higher cost of care”</i>	High
10. Average claims size. The NIIS does not achieve economies of scale by setting up the infrastructure for community based care and there is upward pressure on the Levy - <i>“no economies of scale in community based care”</i>	Low
11. Average claims size. Underlying severity of injuries deteriorates over time and is higher than expected or the mix of severity (i.e. a higher proportion of more severely injured claimants) deteriorates over time and is worse than expected resulting in higher medical and care costs - <i>“underlying severity increases”</i>	Low
12. Financial management. Investment returns are below the pricing assumption - <i>“inadequate investment returns”</i>	High
13. Financial management. The NIIS Scheme financial outcomes and levies are sensitive to the required funding level chosen given the extreme volatility of results in any one reporting period. That is the capital management policy will have an important and possibly significant impact on the NIIS levy - <i>“capital management”</i>	High
14. Financial management. Scheme administration costs are greater than expected - <i>“higher claims administration costs”</i>	Low
15. Financial management. Political interference into the management of scheme (e.g. levy setting process) - <i>“political pressure”</i>	Medium