

Restoring Security and Respect: Rebuilding NSW's Workers Compensation System

Unions NSW commissioned the Centre for Future Work to research the prospect for positive reforms of the NSW workers compensation system. The resulting report by Dr. Ian Watson and Dr. Jim Stanford is summarised below.

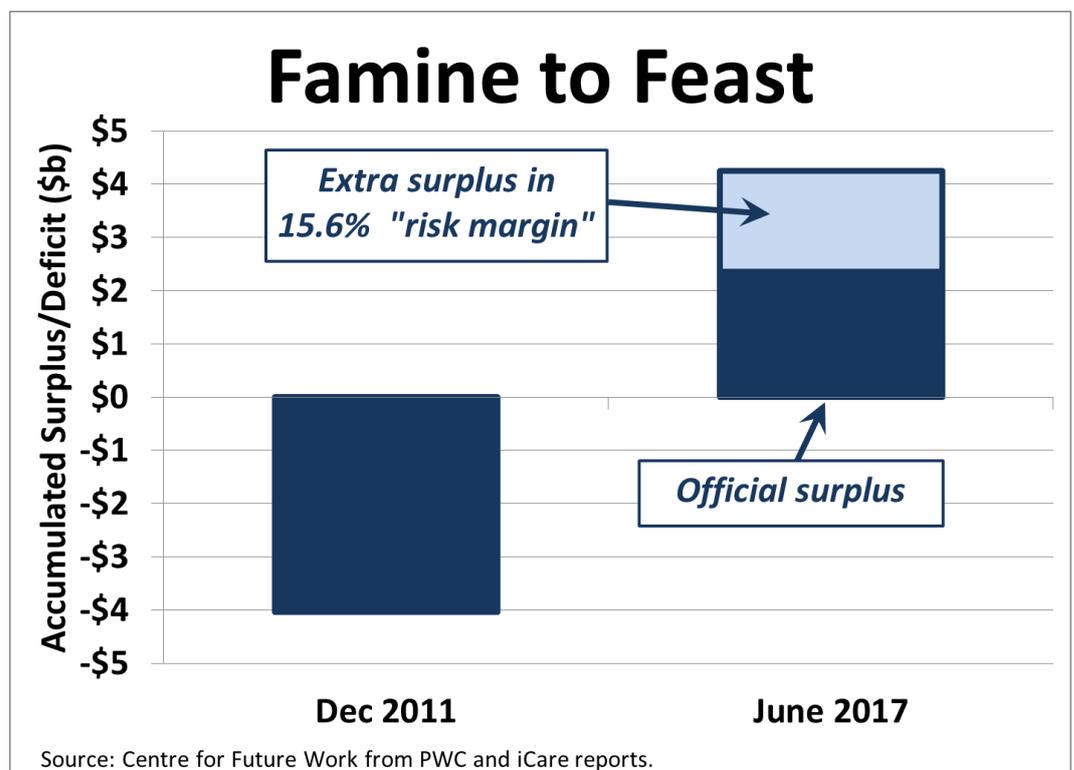
The workers compensation system in New South Wales has undergone a wrenching transformation since 2011. A newly-elected Liberal government, citing an alleged financial crisis, imposed far-reaching cutbacks in benefit payments to injured workers. Since then, benefit payments (adjusted for inflation) declined 25 percent in just five years – and some cuts are still being imposed on injured workers and their families (including those losing benefits entirely under Section 39).

But even as injured workers suffer the consequences, the financial position of the workers compensation system was radically transformed – from “famine to feast” in just a few years. The supposedly dire accumulated deficit which justified the cutbacks disappeared entirely within one year: by mid-2013 the fund was already back in surplus. The system’s true surplus now exceeds \$4 billion, including a \$1.9 “risk cushion,” driven by benefit cuts and a recovery in financial markets. It turns out the 2011 “crisis” was both temporary and artificial.

With the system generating huge surpluses, the government was forced to partially restore some benefits after 2014. But the biggest benefits

from the system’s financial transformation have gone to private employers: average effective premium rates for private employers declined by 30 percent since 2011.

The finances of the NSW workers compensation system will continue to improve in coming years, thanks to three positive trends: growth in the premium base (due to growing employment and



rising wages), a sustained decline in injury rates, and rebounding interest rates (which reduce the present-value cost of liabilities).

There is no fiscal or moral justification for injured workers to continue to suffer reduced benefits, while the workers compensation system carries a multi-billion dollar surplus – poised to get even bigger in the years ahead. Unions NSW

commissioned the Centre for Future Work at the Australia Institute to conduct an independent review of the system's financial position. The full 95-page report, *Restoring Dignity and Respect: Rebuilding NSW's Workers Compensation System*, reviews the system's roller-coaster ride over the past decade, and highlights the artificial and temporary nature of the financial circumstances which were invoked to justify cuts in 2012. (The full report is available at www.futurework.org.au). It documents and explains the improvements in injury rates, premium revenue, and financial markets that underpin the continued surplus-generating capacity of the system.

The report confirms that ample resources are available to fund a gradual but ambitious repair in benefit entitlements for injured workers in the years ahead, centred around Unions NSW's 12-point vision for a fair, effective, and sustainable workers compensation system. The report makes 10 core recommendations to the state government and icare directors, including:

1. Maintain overall effective average premium rates at current level.
2. Simplify and make more transparent the formulae for calculating premiums for specific employers.
3. Undertake an independent actuarial review of the cost of reversing specific components of the 2012 policy changes, and otherwise improving benefits (including the twelve reform principles outlined by Unions NSW).
4. Develop a staged timetable for restoring and enhancing benefits, with liabilities increased by \$1 billion annually over the next five years.
5. Impose a moratorium on the cessation of monthly benefits under Section 39, and restore benefits for injured workers who have been cut off.
6. Revise capital funding policy to target full funding (100 percent) of adjusted present value liabilities (including a cushion to reflect an 80-percent probability risk margin).
7. Monitor financial balances of the system, and adjust the timing of benefit improvements accordingly.

8. Release terms of the contract with EML (now monopoly private provider of core insurance and claims management services to the system), and investigate the potential for in-sourcing its services.
9. Detailed evaluation of the performance of icare's investment program to explain fully the recent underperformance of its investment income.
10. Implement a meaningful tripartite system of consultation and governance.

Under the five-year timetable, benefits for injured workers would be repaired in several stages, with no increase in average effective premium rates, and still exceeding full funding of obligations (including a \$2 billion cushion for risk margin). There is no fiscal excuse for treating injured workers with the callous disrespect they have endured since 2012. That legacy cannot be reversed overnight, but it can be reversed with a significant and responsible commitment to rebuild the integrity of the program over the coming years.

Relative to total labour costs and to NSW's economy, workers compensation premiums have never been lower: down 60 percent since 2009. Our society can and should focus, first and foremost, on preventing workplace injuries and diseases, through effective pro-active education, inspection, and enforcement (including by empowering trade unions to perform their legitimate function in ensuring workplace safety standards are respected by employers). But when injuries occur, society has an obligation to provide workers with compensation they can count on. This report confirms that NSW is fully capable of meeting this responsibility. It is simply a matter of political and fiscal priority on the part of the state government, to ensure it happens.