



Workplace Solutions

written by

Hedy Babi

Director

Direct +61 8 8229 0939

HBabi@dwlaw.com.au



New Employer Payments System 2012

The Workers Rehabilitation and Compensation (Employer Payments) Amendment Bill 2011 has been passed by Parliament with the new Employer Payments System expected to commence on 1 July 2012.

As you may be aware, there was considerable opposition to the Amendment Bill when first introduced into Parliament on 28 September 2011 resulting in the Minister acting to remove several sections and reintroducing the Amendment Bill in November.

While the Act will come into effect on 1 January 2012, the operation of virtually the entire Act is suspended pending future proclamation. The only part that comes into effect from 1 January 2012 enables the Corporation to commence collecting information from employers.

What Does It Mean For Employers?

The new approach to employer payments will see the introduction of **insurance based terminology and documentation** with the term "levy" replaced by "premium" to be more consistent with the concept of insurance. The term "disability" will also be replaced by the term "injury".

Employers will be categorised by size to determine the applicable employer payment calculation.

- **Small employers** - those with a base premium below \$20,000 and/or annual remuneration below \$300,000 will have their premium calculated as currently occurs - industry rate remuneration, i.e. no impact from claims costs.
- **Medium employers** - those with a base premium equal to or above \$20,000 and below \$500,000 and annual remuneration equal to or above \$300,000 will have their premium

calculated in line with the new mandatory Experience Rating System.

- **Large employers** - those with a base premium equal to or above \$500,000 premium will have their premium calculated in line with the new mandatory Experience Rating System however they will have the option of applying to participate in the new Retro-Paid Loss arrangements.

Experience Rating

The aim of the new "Experience Rating System" for medium and large employers is to provide an incentive for employers to focus on Safety and Injury Management practices to improve their claim numbers and costs through the inclusion of claims costs in the calculation of their premium. Claims costs were included in levy calculations under the Bonus / Penalty Scheme that operated in South Australia until 30 June 2010. The new system will use both **costs actually paid and estimated future costs for the claims reported at the date of the premium calculation with a date of injury within the claims window**. The claims window has also been increased to 3 years viz, the 2 prior financial years together with the current financial year.

The starting point for the new payment system is to calculate the employer's base premium. This base premium will then be adjusted by the employer's claim costs as compared to the industry claims costs with a sizing factor applied to determine the level of impact of the employer's own experience on the calculation. The extent of the impact will vary with the size of the employer. An employer with claims costs better than the industry claims costs should receive a discount on the base premium thus providing the incentive for the employer to monitor and manage claims costs.



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Be Aware

While much of the detail behind the new system is expected to be contained in the WorkCover Premium Provisions and Premium Orders yet to be gazetted, there are some aspects of the new system that registered employers should be aware of now:-

- The claim window for the calculation of initial premium for 2012/13 will run from 1 July 2010 to 30 June 2012. The costs associated with secondary disabilities remain excluded from premium calculation as was the case under the Bonus/Penalty Scheme. After the cessation of the Bonus/Penalty Scheme many employers may have been advised by their case manager that there was no need to worry about secondary coding. That is wrong!

It is imperative that employers review their claim portfolios and ensure that all claims are correctly coded as secondary disabilities where appropriate and maintain this focus for all future claims.

- Premium will now be calculated at employer level rather than at the current location level with allocation of premium between locations likely to become an employer responsibility.

Employers should consider what impact this may have on internal allocation from 1 July 2012.

- Estimating has not previously applied in South Australia and so it will represent a new process for case managers. Given the potential impact of claim estimates on premium calculation, employers will need to:-
 - **familiarise themselves with the estimating process** (the Estimating Manual is expected to be released in early 2012); and
 - **monitor their claims costs and estimates closely** through regular review with their case managers
- Grouping provisions have been introduced. An assessment will need to be done to determine whether an individual employer is part of a group as this will impact the premium calculation. There is provision for the Corporation to rate employers together and for all employers in the group to be jointly and severally liable for payment of premium for the group.

Employers should consider whether they may form part of a group under the Payroll Tax Act 2009 or are related in some other way and ensure they have processes in place to monitor their performance as group.

- New provisions have been introduced regarding transfer of business allowing claims experience or any other factor to be transferred where a transfer of business occurs as defined under the Fair Work Act 2009.

Employers should ensure that senior management are aware of this potential impact when considering acquisition of a new business to ensure the potential impact of the transfer on the organisation's premium can be forecast and considered beforehand.

Self Insurers

From a self-insured perspective, the general view is that there will be little impact to self-insured employers. It should be noted however that the "fee" payable by a self-insured employer will be a percentage of the base premium payable had the employer not been self-insured. Any changes to class of industry and/or industry rates may have an effect on the quantum of the "fee" paid by a self-insurer.

There will be the need to update all self-insurance documentation to reflect the terminology change from disability to injury in time for commencement of the Amendment Act.

Information Sessions

It is understood WorkCover are preparing to release further information on the new Employer Payments Scheme in the near future and will be holding further consultation sessions in the New Year. We will be monitoring developments closely and providing regular updates with a view to running information sessions once details of the full extent of the new system have been finalised.

Employers should focus on the issues outlined above and keep up-to-date on future developments, because there is limited time to prepare for the potential financial impact prior to the new system's introduction.

For further information,
please contact

DonaldsonWalsh Lawyers
Kings Chambers
320 King William Street
Adelaide SA 5000
Tel +618 8410 2555
Fax +618 8410 2322
info@dwlaw.com.au
donaldsonwalsh.com.au