CALCULATION OF PREMIUM

Guidance for employers who pay more than $1.5 million in wages
Every employer who employs workers in Queensland must take out an accident insurance policy with WorkCover Queensland (excluding self-insurers) to ensure they are covered against injuries sustained by their workers.

The premium that you pay for your accident insurance policy depends on a number of factors.

This guide is designed to help you, as an employer, understand how your WorkCover premium is calculated.

It also outlines the method used to calculate your premium and tools to assist you reduce your premium and improve claim outcomes.

It provides guidance for applying the relevant provisions of the Workers' Compensation and Rehabilitation Act 2003 (the Act) and the Queensland Government Gazette (the Gazette).
CALCULATION OF PREMIUM

There are three stages your policy goes through – from policy application through to full transition to the Experience Based Rating (EBR) system.

EBR (the method) uses your individual wage and claim experience and the claim experience of your industry to calculate the amount of premium you pay. Like other types of insurance, it links your claims costs to the cost of your premium.

In this guide, we will go through each stage in more detail.

Before we get to these three stages, let’s look at where the ‘setting of premium’ is stated in the legislation.
CALCULATION OF PREMIUM

Section 54 of the Act outlines:

• WorkCover must set the premium payable under a policy.

• The premium payable for the policy for a period of insurance must be assessed according to the method and at the rate specified by the Gazette notice.

• If no rate is specified in the notice for an employer’s industry or business, WorkCover must decide the rate. This will be the Gazette rate that most closely describes the employer's industry or business.

• The Gazette notice may state a method or rate that provides for a premium payable by an employer when the employer’s premium rate repeatedly exceeds the relevant industry rate.

Important note

The industry rate specified by the Gazette is reflective of the industry risk based on industry claims experience. That is, the higher the industry rate, the higher the risk of injury. A lower industry rate indicates a lower risk of injury.
Now that you know what the setting of premium involves, let’s go through the following three stages.

- **Stage 1** – Policy application
- **Stage 2** – Policy renewal
- **Stage 3** – Experience based rating (EBR) taking effect

We’ll also go through some tips for reducing your premium – a safe workplace can save you up to 90% off your industry rate.
STAGE 1: POLICY APPLICATION

When you first applied for your policy, WorkCover calculated your premium based on the following as per the Gazette:

• We allocated a WorkCover Industry Classification (WIC) and associated industry rate to your policy that we considered corresponds to or most closely describes your predominant business activity, and
• You provided us with estimated wages for the period of insurance.

So your initial premium was calculated as follows:
• your estimated wages x industry rate = your premium (plus GST & Stamp Duty)

Important note
For the first 18 months of your accident insurance policy, your premium is calculated using your wages multiplied by the industry rate. Your claims experience will not come into effect until after your first 18 months of insurance as there is insufficient claims experience to use in the EBR formula.
STAGE 2: POLICY RENEWAL

At the start of each financial year, we invite you via email or mail to declare your wages with us by 31 August.

During your policy renewal, you declare the actual wages you paid to workers in the past period of insurance and your estimated wages for the current period of insurance.

From 1 July 2017, wages paid to apprentices during the course of their apprenticeship will no longer be included in your premium calculation—resulting in a discounted premium for those who employ apprentices. This discount does not apply to trainees.

During the wage declaration process, you will be prompted to declare your apprentice wages. We will deduct these wages from your premium calculation, which will result in a cheaper premium.

For a faster and easier way to renew and pay your premium, you can declare your wages using our online services. Use our online step-by-step declaration option to be guided through the wage declaration process, and have confidence you’ve declared the correct wages.
Your premium is then adjusted for the prior period based on the difference between your estimated wages and actual wages. For example, if you estimated your wages to be $2,000,000 but you actually paid $2,300,000 – the premium shortfall adjustment will be on $300,000 wages. After this adjustment, your premium for the current period of insurance is calculated on your new estimated wages.

There is no change to the premium rate used for each period of insurance. After your policy has been in place for 18 months, your premium rate is calculated using EBR. This means that your individual claim experience is taken into consideration.
STAGE 2: POLICY RENEWAL

So using 2019-20 premium renewal as an example, your renewal net premium is made up of the following:

- **Assessed** premium (based on your 2018-19 *actual* wages paid)
- Minus – Prior provisional premium (based on what you *estimated* to pay for the period 2018-19)
- Add  + **Provisional** premium (based on your *estimated* wages for the period 2019-20)
- Add  + Other additional premium (e.g. late payment, if any)
- Add  + GST @ 10%
- Add  + Stamp duty @ 5%

= Your net premium for the 2019-20 period of insurance

**Important note**

To take advantage of our 5% premium discount offer during policy renewal, you must declare your wages by 31 August and pay your full premium by 16 September. We also offer interest-free payment plans if you declare your wages by 31 August each year.
STAGE 3: EXPERIENCE BASED RATING

To calculate your individual premium rate each year (after 18 months), we determine the likelihood of you having claim costs in that year. To do this, we take into consideration your historical claims experience.

Claims experience is made up of the cost of statutory claims (no fault), common law damages claims (negligence) and the estimated cost of managing these claims through to completion. WorkCover calculates the estimated cost of claims in any year by using prior claims history as the indicator of future costs.

Statutory claims generally have a short duration, with 95% of claim costs paid within three years of the date of injury. However, common law claim costs can take many years as an injured worker has three years from the date of injury to lodge a common law claim.
STAGE 3: EXPERIENCE BASED RATING

Therefore, to estimate your claim costs, we use the last three years of your statutory claim experience and the one year prior to that of your common law claim experience (total of four years’ claims experience).

To allow for the cost of claims over time, we multiply the claims costs from each of these years by a gross up (sum) factor, known as ‘F’ factor.

The F factor is the factor by which we gross up the known claim costs to arrive at the ultimate / estimated full cost for each corresponding injury year. It is calculated at a scheme level each year and is the same for all policies.

Important note
Individual claim costs greater than $175,000, claim costs arising from journeys to and from work and recess away from work claim costs are not included in your EBR calculation.
STAGE 3: EXPERIENCE BASED RATING

Therefore the EBR formula is as follows:

\[ PR = [E \times Z] + [R \times (1 - Z)] \]

- **Your premium rate from previous year adjusted for industry rate movement**
- **Sizing factor of your business determined by your wages and industry rate (small, medium or large)**
- **Your statutory and common law claims experience grossed up to ultimate cost for each injury year.**

An individual sizing factor \((Z)\) for each employer is incorporated into the EBR system. A sizing factor determines what weighting is given to your claims experience \((E)\) and what weighting is given to your previous year’s rate \((R)\) when calculating your premium rate. The higher your sizing factor, the more weighting is placed on your experience. The lower your sizing factor, the more weighting is placed on your prior premium rate.

This means the larger an employer, the more impact their claims experience will have on their premium rate, while smaller employers have less weighting on their claims experience. This ensures less volatility in premium rates from year to year for smaller businesses.
STAGE 3: EXPERIENCE BASED RATING

We have premium capping in place to encourage our customers to improve claims outcomes. The premium rate for the period of insurance will be the **least of**:

- Rate calculated as per EBR formula, or
- Prior premium rate (PPR) x 1.3, or
- Industry rate (IR) x 2, or
- Industry rate (IR), if the claims experience (E) calculated is less than industry rate for that year, or
- $18 per $100 in wages

**Important note**

Customers capped at 2 x IR will need to participate in the *Injury Prevention and Management (IPaM) program* when requested by WorkCover. If a customer decides not to participate, their rate each year will be increased by increments of 1. For example, customers who are capped at 2 x IR for two years – their rate **each year** (after two years) will be increased by increments of 1, that is 3 x IR, 4 x IR, 5 x IR and so on, as per the *Gazette*. 
TIPS FOR REDUCING YOUR PREMIUM

The key to reducing your premium is all about reducing and managing your claims costs should a worker sustain an injury. The lower the claims costs, the more chances you have of lowering your premium. Here are some ways to do this:

• Assist your worker by lodging the claim as early as possible so that their treatment is not delayed. The sooner we get your worker the appropriate treatment and assistance, the sooner they can return to work.

• Facilitate your worker’s early return to work by providing suitable duties. Find out what you can do to improve claim outcomes, and how to make early contact with an injured worker.

• Proactively manage risk and improve workplace health and safety. Connect with us and keep up to date with our website material relating to your industry.
Here’s a summary of the benefits of EBR:

- links claims and premium
- gives financial incentives for employers to improve workplace health and safety
- provides premium incentive for effective claims management and worker rehabilitation
- protects small businesses from premium volatility by placing more weighting on their prior premium rate
- provides greater flexibility for larger businesses to manage claims outcomes by placing greater weight on their claims experience.

If you utilise the tools mentioned in this guide, you will be on track for achieving a lower premium and even enjoying our lowest possible premium, which can save you up to 90% off your industry rate.
For more guidance or information:
• visit worksafe.qld.gov.au
• call your Relationship Manager
• call our office on 1300 362 128.