



New South Wales

# Insurance Premiums Order (Retro-Paid Loss Premium Method) 2010–2011

under the

Workers Compensation Act 1987

Her Excellency the Governor, with the advice of the Executive Council and on the recommendation of the WorkCover Authority, has made the following Order under the *Workers Compensation Act 1987*.

MICHAEL DALEY, M.P.,  
Minister for Finance

## Explanatory note

Section 168A of the *Workers Compensation Act 1987* provides that an insurance premiums order may fix (as an **optional alternative method**) an alternative method for calculating the premium payable by an employer who is classified under the order as a large employer (or a person who proposes to become such an employer) for a policy of insurance under that Act.

The object of this Order is to fix such an optional alternative method for calculating premiums (to be known as the Retro-Paid Loss Premium Method) in respect of policies of insurance that are to be, or have been, issued or renewed so as to take effect on or after 4 pm on 30 June 2010 and before 4 pm on 30 June 2011.

This Order also fixes or determines the **required deposit** in respect of such a policy of insurance that an employer may be required to deposit with the Nominal Insurer under section 172A of the *Workers Compensation Act 1987*.

This Order is made under sections 168, 168A and 172A of the *Workers Compensation Act 1987*.

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Insurance Premiums Order (Retro-Paid Loss Premium Method) 2010–2011

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## Insurance Premiums Order (Retro-Paid Loss Premium Method) 2010–2011

under the

Workers Compensation Act 1987

### 1 Name of Order

This Order is the *Insurance Premiums Order (Retro-Paid Loss Premium Method) 2010–2011*.

### 2 Commencement

This Order commences at 4 pm on 30 June 2010 and is required to be published in the Gazette.

### 3 Interpretation

(1) In this Order, words and expressions have the same meanings as they have in the General Order, unless this Order provides otherwise.

(2) In this Order:

**adjustment date**, in relation to a policy of insurance, means each of the following dates:

- (a) the date that is 15 months after the date of the commencement of the period of insurance (the **first adjustment date**),
- (b) the date that is 24 months after the date of the commencement of the period of insurance (the **second adjustment date**),
- (c) the date that is 36 months after the date of the commencement of the period of insurance (the **third adjustment date**),
- (d) the date that is 48 months after the date of the commencement of the period of insurance (the **fourth adjustment date**),
- (e) the date that is 60 months after the date of the commencement of the period of insurance (the **fifth adjustment date**).

**cost of claims** has the same meaning as in Division 4 of Part 20 of the *Workers Compensation Regulation 2003*.

**General Order** means:

- (a) the *Insurance Premiums Order 2010–2011*, or
- (b) if no such order has been made, the *Insurance Premiums Order 2009–2010*.

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- (3) The explanatory note does not form part of this Order.

### 4 Application of Order

- (1) This Order applies only to and in respect of policies of insurance for employers to whom the optional alternative method of calculating premiums under section 168A of the Act applies (*retro-paid loss premium policies*).
- (2) This Order applies to and in respect of retro-paid loss premium policies that are to be or have been issued or renewed so as to take effect on or after 4 pm on 30 June 2010 and before 4 pm on 30 June 2011.
- (3) If, before 4 pm on 30 June 2011, an insurance premiums order that applies only to and in respect of retro-paid loss premium policies has not been made in respect of such policies of insurance taking effect on or after that time, this Order applies to and in respect of those policies pending the making of such an order.
- (4) The General Order (other than clauses 3 and 4) applies to and in respect of retro-paid loss premium policies, unless this Order provides otherwise.
- (5) This Order does not apply to a policy of insurance issued or renewed by a specialised insurer that is exempted from insurance premiums orders by clause 147 of the *Workers Compensation Regulation 2003*.

### 5 Classification of large employers

A large employer within the meaning of the General Order is classified a large employer under this Order.

### 6 Retro-Paid Loss Premium Method of premium calculation

For the purposes of section 168A of the Act, the alternative method is to calculate the premium for a policy of insurance at the commencement of the period of insurance (*the deposit premium*), and then recalculate the premium at each adjustment date (*the adjusted premium*), in accordance with this Order.

### 7 Minimum premium

Despite any other provision of this Order, a deposit premium and an adjusted premium in respect of any policy of insurance is to be no less than \$175.

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**8 Calculation of required deposit: section 172A of Act**

- (1) The required deposit for an employer in relation to a policy of insurance is to be calculated in accordance with the following formula:

- (a) before the first adjustment date:

$$R_D = P_{\max} - P_D$$

- (b) on and from the first adjustment date:

$$R_D = P_{\max} - P$$

where:

$R_D$  is the required deposit in respect of the period of insurance to which the policy relates.

$P_{\max}$  is the maximum premium that is payable by the employer calculated in accordance with Schedule 1.

$P_D$  is the deposit premium payable by the employer calculated in accordance with Schedule 1.

$P$  is the premium payable by an employer for a policy of insurance calculated in accordance with Schedule 1.

- (2) However, if the employer is a member of a group, subclause (1) does not apply and the required deposit for an employer in relation to a policy of insurance is to be calculated in accordance with the following formula:

- (a) before the first adjustment date:

$$R_D = (P_{G\max} - P_{Gd}) \times \frac{P_{Ed}}{P_{Gd}}$$

- (b) on and from the first adjustment date:

$$R_D = (P_{G\max} - P_G) \times \frac{P_E}{P_G}$$

where:

$R_D$  is the required deposit in respect of the period of insurance to which the policy relates.

$P_{G\max}$  is the maximum premium that is payable by the members of the group in respect of the period of insurance to which the group's policies relate calculated in accordance with Schedule 2.

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$P_{Gd}$  is the deposit premium payable by the members of the group in respect of the period of insurance to which the group's policies relate calculated in accordance with Schedule 2.

$P_{Ed}$  is the deposit premium that is payable by the employer who is a member of a group calculated in accordance with Schedule 2.

$P_G$  is the group premium payable by the members of the group in respect of the period of insurance to which the group's policies relate calculated in accordance with Schedule 2.

$P_E$  is the premium for the time being payable by an employer who is a member of a group in respect of the period of insurance to which the policy relates (including, where adjustments are required to be made to that premium by reason of the operation of this Order, the premium so payable by reason of those adjustments).

### 9 Schedules form part of Order

Schedules 1–4 form part of this Order.

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## Schedule 1 Method of calculation of deposit premium and adjusted premium—general

(Clause 8)

**1 Calculation of deposit premium and adjusted premium**

- (1) The method for calculating the premium for a policy of insurance at the commencement of the period of insurance (*the deposit premium*) is as follows:

$$P_D = (((T \times (1 - S)) \times V_5) \times 1.25) + Q + D + M - A$$

- (2) The method for recalculating the premium for the policy of insurance at each adjustment date (*the adjusted premium*) is as follows:

$$P = (C \times V) + Q + D + M - A$$

but is not less than  $P_{\min}$  and not more than  $P_{\max}$ .

**2 Interpretation**

In this Schedule:

**$P$**  is the adjusted premium for the time being payable by the employer in respect of the period of insurance to which the policy relates (including, where adjustments are required to be made to that premium by reason of the operation of this Order, the premium so payable by reason of those adjustments).

**$C$**  is the total of the cost of claims for the employer in respect of the period of insurance (not including the cost of any claims under sections 10 (Journey claims) and 11 (Recess claims) of the Act).

**$V$**  is the claims adjustment factor for the employer determined with respect to the period of insurance to which the policy relates in accordance with Schedule 4 of this Order.

**$P_D$**  is the deposit premium payable by the employer in respect of the period of insurance to which the policy relates.

**$P_{\max}$**  is the maximum premium that is payable by the employer in respect of the period of insurance to which the policy relates, calculated as follows:

$$P_{\max} = (T \times 2.5) + Q + D + M - A$$

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Schedule 1 Method of calculation of deposit premium and adjusted premium—general

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$P_{min}$  is the minimum premium that is payable by the employer in respect of the period of insurance to which the policy relates, calculated as follows:

- (a) in relation to a premium calculated at the first or second adjustment date:

$$P_{min} = (((T \times (1 - S)) \times V_5) \times 1.25) + Q + D + M - A$$

- (b) in relation to a premium calculated at the third, fourth or fifth adjustment date:

$$P_{min} = ((T \times (1 - S)) \times V_5) + Q + D + M - A$$

$V_5$  is the claims adjustment factor for the employer determined with respect to the period of insurance to which the policy relates in accordance with Schedule 4 of this Order in relation to the fifth adjustment date.

$T$  is the basic tariff premium for the employer, calculated with respect to the period of insurance in accordance with the General Order.

$S$  is the experience adjustment factor for the employer determined with respect to the period of insurance in accordance with Schedule 3 of this Order.

$Q$  is the premiums adjustment contribution, if any, for the employer calculated with respect to the period of insurance in accordance with the General Order.

$D$  is the dust diseases contribution, if any, for the employer calculated with respect to the period of insurance in accordance with the General Order.

$M$  is the Mine Safety Fund premium adjustment, if any, for the employer calculated with respect to the period of insurance in accordance with the General Order.

$A$  is the apprentice incentive amount, if any, for the employer calculated with respect to the period of insurance in accordance with the General Order.



## Schedule 2 Method of calculation of deposit premium and adjusted premium—member of a group

(Clause 8)

### 1 Application of Schedule

Despite Schedule 1, if an employer is a member of a group, the provisions of this Schedule apply.

### 2 Premium at commencement of policy period

The method for calculating the premium for the policy of insurance at the commencement of the period of insurance (*the deposit premium*) is as follows:

$$P_{Ed} = \left( P_{Gd} \times \frac{T_E}{T_G} \right) + Q + D + M - A$$

### 3 Option 1

For members of a group to which Option 1 applies, the method for recalculating the premium for the policy of insurance at each adjustment date (*the adjusted premium*) is as follows:

$$P_E = \left( P_G \times \frac{T_E}{T_G} \right) + Q + D + M - A$$

### 4 Option 2

For members of a group to which Option 2 applies, the method for recalculating the premium for the policy of insurance at each adjustment date (*the adjusted premium*) is as follows:

$$P_E = \left( 40\% \times P_G \times \frac{T_E}{T_G} \right) + \left( 60\% \times P_G \times \frac{C_E}{C_G} \right) + Q + D + M - A$$

However, if  $C_G = 0$ , then the premium is to be calculated in accordance with the formula set out for Option 1 in clause 3.

### 5 Option 3

For members of a group to which Option 3 applies, the method for recalculating the premium for the policy of insurance at each adjustment date (*the adjusted premium*) is as follows:

$$P_E = \left( P_G \times \frac{[(T_E \times (1 - S_G)) + C_E]}{[(T_G \times (1 - S_G)) + C_G]} \right) + Q + D + M - A$$

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Schedule 2 Method of calculation of deposit premium and adjusted premium—member of a group

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### 6 Interpretation

(1) Terms that have a meaning in Schedule 1 have the same meaning in this Schedule.

(2) In this Schedule:

$P_{Ed}$  is the deposit premium payable by the employer who is a member of a group in respect of the period of insurance to which the policy relates.

$P_{Gd}$  is the group deposit premium payable by the members of the group calculated as follows:

$$P_{Gd} = (((T_G \times (1 - S_G)) \times V_5) \times 1.25)$$

$P_{Gmin}$  is the minimum premium that is payable by the members of the group in respect of the period of insurance to which the group's policies relate, calculated as follows:

(a) in relation to a premium calculated at the first or second adjustment date:

$$P_{Gmin} = (((T_G \times (1 - S_G)) \times V_5) \times 1.25)$$

(b) in relation to a premium calculated at the third, fourth or fifth adjustment date:

$$P_{Gmin} = ((T_G \times (1 - S_G)) \times V_5)$$

$P_{Gmax}$  is the maximum premium that is payable by the members of the group in respect of the period of insurance to which the group's policies relate, calculated as follows:

$$P_{Gmax} = T_G \times 2.5$$

$T_E$  is the basic tariff premium for the employer who is a member of a group calculated:

(a) where the period of insurance to which the premium relates is 12 months—in accordance with Schedule 3 of the General Order with respect to that period of insurance, or

(b) where the period of insurance to which the premium relates is not 12 months—in accordance with Schedule 3 of the General Order as if the policy to which the premium relates had a period of insurance of 12 months.

$T_G$  is the sum of the basic tariff premiums for all the members of a group calculated:

- (a) where the period of insurance to which the premium relates is 12 months—in accordance with Schedule 3 of the General Order with respect to that period of insurance, or
- (b) where the period of insurance to which the premium relates is not 12 months—in accordance with Schedule 3 of the General Order as if the policies to which the premiums relate had a period of insurance of 12 months.

$S_G$  is the experience adjustment factor for a group of which the employer is a member determined with respect to the period of insurance to which the group's policies of insurance relate in accordance with Schedule 3 of this Order.

$P_E$  is the adjusted premium for the time being payable by an employer who is a member of a group in respect of the period of insurance to which the policy relates (including, where adjustments are required to be made to that premium by reason of the operation of this Order, the premium so payable by reason of those adjustments).

$P_G$  is the group adjusted premium payable in respect of the period of insurance to which the group's policies of insurance relate, calculated as follows:

$$P_G = C_G \times V_G$$

but is not less than  $P_{Gmin}$  and not more than  $P_{Gmax}$ .

$C_G$  is the total of the cost of claims for all members of the group in respect of the period of insurance to which the group's policies of insurance relate (not including the cost of any claims under sections 10 (Journey claims) and 11 (Recess claims) of the Act).

$V_G$  is the claims adjustment factor for the group determined with respect to the period of insurance to which the group's policies of insurance relate in accordance with Schedule 4 of this Order.

$C_E$  is the total of the cost of claims for the employer in respect of the period of insurance to which the policy relates (not including the cost of any claims under sections 10 (Journey claims) and 11 (Recess claims) of the Act).

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Schedule 3 Experience adjustment factor

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### Schedule 3 Experience adjustment factor

(Schedule 1, clause 2 and Schedule 2, clause 6)

#### 1 Where employer not a member of a group

The experience adjustment factor (“*S*”) for an employer is the factor calculated in accordance with the following formula:

$$\frac{0.9T}{T + 225,000}$$

#### 2 Where employer a member of a group

If the employer is a member of a group, the experience adjustment factor (“*S<sub>G</sub>*”) for the group is the factor calculated in accordance with the following formula:

$$\frac{0.9T_G}{T_G + 225,000}$$

#### 3 Interpretation

In this Schedule:

*T* is the basic tariff premium for the employer calculated:

- (a) where the period of insurance to which the premium relates is 12 months—in accordance with Schedule 3 of the General Order with respect to that period of insurance, or
- (b) where the period of insurance to which the premium relates is not 12 months—in accordance with Schedule 3 of the General Order as if the policy to which the premium relates had a period of insurance of 12 months.

*T<sub>G</sub>* is the sum of the basic tariff premiums for all the members of the group calculated:

- (a) where the period of insurance to which the premium relates is 12 months—in accordance with Schedule 3 of the General Order with respect to that period of insurance, or
- (b) where the period of insurance to which the premium relates is not 12 months—in accordance with Schedule 3 of the General Order as if the policies to which the premiums relate had a period of insurance of 12 months.

## Schedule 4 Claims adjustment factor

(Schedule 1, clause 2 and Schedule 2, clause 6)

### General

The claims adjustment factor for an employer (“V”) (or for a group (“V<sub>G</sub>”)) at the adjustment date set out in Column 1 of the Table to this clause is, if the employer has (or all the members of the group of employers of which the employer is a member have) elected a large claim limit for the purposes of clause 137 (5) of *Workers Compensation Regulation 2003* of:

- (a) \$350,000—the factor set out in Column 2 of the Table corresponding to that date, and
- (b) \$500,000—the factor set out in Column 3 of the Table corresponding to that date.

### Table

Column 1	Column 2	Column 3
Adjustment date	Adjustment factor “V” (or “V <sub>G</sub> ”) for \$350,000 large claim limit	Adjustment factor “V” (or “V <sub>G</sub> ”) for \$500,000 large claim limit
First adjustment date (being commencement of policy period plus 15 months)	3.05	2.95
Second adjustment date (being commencement of policy period plus 24 months)	2.10	2.00
Third adjustment date (being commencement of policy period plus 36 months)	1.80	1.70
Fourth adjustment date (being commencement of policy period plus 48 months)	1.75	1.67
Fifth adjustment date (being commencement of policy period plus 60 months)	1.75	1.67