



New premium capping arrangements – 2021-22

Keeping premiums stable, affordable and fair

Coal Mines Insurance (CMI) is committed to continuous improvement to deliver best practice workers compensation insurance and claims and injury management services that provide an overall benefit to the NSW coal industry.

The underlying objective of the CMI Scheme's premium system is to ensure premiums remain stable, affordable and fair for employers while providing a sustainable Scheme.

To further that aim, new premium capping arrangements are being introduced to the premium calculation. These changes are designed to limit the unintended impact of occasional as opposed to systemic poor claims experience, while also ensuring the majority of policyholders pay a premium that is closely aligned with their risk and true premium rate. The new capping arrangements are also intended to provide Small Employers (those with wages less than or equal to \$2.5m) with greater premium stability.

The new premium capping arrangements will apply from the 2021-22 policy year.

Frequently asked questions

What are the current premium capping arrangements?

In 2016-17, CMI introduced a new premium system to help achieve its underlying objective of ensuring that premiums remain stable, affordable and fair, and to better align premium with employers' different levels of risk and claims experience across the NSW coal industry.

To help policyholders' transition to the new premium system and minimise any volatility resulting from the change, CMI implemented temporary arrangements that capped premium rate movements by +/- 30 per cent from the previous year.

What are the new premium capping arrangements?

Small Employers (wages less than or equal to \$2.5 million)

Premiums will be set equal to the Base Tariff Premium (**BTP**). The BTP is equal to the weighted average Category Rate times wages. Premiums will no longer be "experience-rated", i.e. claims costs will not be taken into account in the premium calculation.

Large Employers (wages greater than \$2.5 million)

Premium capping will apply based on your Base Tariff Premium (BTP), as follows:

- BTP less than or equal to \$500,000 a cap of 1.5 times the BTP
- BTP greater than \$500,000 and up to \$1.5M a cap of 2.0 times the BTP
- BTP greater than \$1.5M and up to \$3.0M a cap of 2.5 times the BTP
- BTP greater than \$3.0 million a cap of 3.0 times BTP

Why are the current premium capping arrangements finishing?

The capping arrangements introduced from the 2016-17 policy year were intended to be a temporary, three-year measure with the potential for a short-term extension. After review, capping provisions were extended for an additional year for the 2019-20 policy period.

Due to the unique circumstances arising from the COVID-19 pandemic and the potential impacts on the NSW coal industry and wider economy, the Coal Services Board, made the decision to extend the transitional capping arrangements for one final year in 2020-21.

The Target Premium Collection Rate for 2020-21 was also held at the same level as for the 2019-20 policy year.

Earlier this year, CMI advised policyholders of the Coal Services Board's decision and that the final year for the current capping arrangements would be 2020-21.

Am I considered a Small or Large Employer for Premium Calculation Purposes?

Small Employers are employers who pay less than or equal to \$2.5 million in annual wages during the 12-month policy period – these policies will **NOT** be experience rated.

Large Employers are employers who pay more than \$2.5 million in annual wages – these policies will continue to be experience-rated (with the exception of some new policies). New premium capping arrangements based on Base Tariff Premium (BTP) will apply.

Why is the wage limit for a Small Employer set at less than or equal to \$2.5 million?

Employers with annual wages less than or equal to \$2.5 million represent around 90% of CMI Scheme policyholders by number, but only around 10% of the total wages pool.

Why wouldn't you consider Small Employers' claims experience in setting premiums?

Generally speaking, Small Employers have very few claims and less opportunity to directly influence their own claims experience, so premium rates that are based on the "average" category rates are considered fairer. This is also the approach adopted in other schemes such as the NSW icare scheme, although the definition of small employer varies between schemes.

I'm a Large employer, do these changes mean I will be subsidizing Small Employers?

No. Setting Small Employer premiums equal to the Base Tariff Premium will still ensure the total premiums for Small Employers are fully funded, that is, they fund the cost of claims and administrative expenses for this group of employers.

What is cross subsidization in workers compensation insurance schemes?

Cross subsidies refer to situations where premiums paid by employers do not 'fairly' reflect their underlying risk and the associated claims paid on behalf of their employees.

By its very nature insurance is intended to smooth out the peaks and troughs of claims experience and provide employers with some certainty about premiums. A level of cross subsidization is expected in most insurance schemes where, for example, the vast majority of small policies pay premium without ever having to make a claim, where larger policies will pay higher premiums but also significantly contribute to scheme liabilities.

How is my Base Tariff Premium (BTP) calculated?

BTP is calculated based on an Employer's Category Rate or Weighted Category Rate, if you have wages declared in more than one premium risk category, multiplied by annual wages.

Example:

Weighted Category Rate 3.5% x Wages \$2,300,000 = BTP \$80,500

I'm a Small Employer – how will these changes affect my premium for next year?

Example

Small employers (annual wages less than or equal to \$2.5 million) will pay the BTP regardless of their claims experience.

For example, an employer with annual wages of \$2.3 million and a Weighted Category Rate of 3.5% will pay an annual premium equal to the BTP (\$80,500) no matter their future claims experience.

I'm a Small Employer and my premium will increase next year because of the changes – is there any protection for that increase?

Some Small Employers might see a premium increase as a result of the change to paying Base Tariff Premium (BTP). If your premium increases due to the change in the premium calculation (rather than due to an increase in your wages or change of premium risk category/categories), any premium increase will be capped at a maximum of a \$5,000 from your prior year's premium, until such time as your premium is equivalent to BTP.

Example

Last year your annual wages were \$1 million, your premium rate was 3.35% and premium payable was \$33,500.

This year your annual wages are \$1 million, your premium risk category is unchanged, and the Weighted Category Rate is 4.0%. As a Small Employer, your premium would be equal to the BTP – \$40,000.

However, due to the \$5,000 increase limit for Small Employers, your premium payable for this year would be capped at \$38,500.

I'm a Large Employer – how will these changes affect my premium for next year?

Following are some examples of how the new premium capping arrangements will work in practice for Large Employers. In this example, the Large Employer has a Weighted Category Rate of 3.5% and a BTP of \$262,500. Therefore, the maximum premium they will pay is equal to \$393,750 (1.5 times the BTP).

	Annual Wages	Premium Claims Cost	Premium Rate	Premium	Outcome
Larger Employers - Premium capped at 1.5 times BTP					
Larger Employer with poor claims experience	7,500,000	250,000	4.46%	334,207	
<i>Additional \$50,000 claims cost</i>					
New Capping		300,000	5.01%	375,439	No change to premium.
Without Capping			5.01%	375,439	
<i>Additional \$100,000 claims cost</i>					
BTP Capping		350,000	5.25%	393,750	Premium is capped at 1.5 times the BTP
Without Capping			5.56%	416,671	
<i>Additional \$594,000 claims cost</i>					
BTP Capping		844,000	5.25%	393,750	Premium is capped at 1.5 times the BTP
Without Capping			10.99%	824,040	
Larger Employer with good claims experience					
Larger Employer with good claims experience	7,500,000	100,000	2.81%	210,512	
<i>Additional \$100,000 claims cost</i>					
BTP Capping		200,000	3.91%	292,976	No change to premium.
Without Capping			3.91%	292,976	
<i>Additional \$250,000 claims cost</i>					
BTP Capping		350,000	5.25%	393,750	Premium is capped at 1.5 times the BTP
Without Capping			5.56%	416,671	
<i>Additional \$594,000 claims cost</i>					
BTP Capping		694,000	5.25%	393,750	Premium is capped at 1.5 times the BTP
Without Capping			9.34%	700,345	
Larger Employer with average claims experience					
Larger Employer with average claims experience	7,500,000	163,043	3.50%	262,500	
<i>Additional \$100,000 claims cost</i>					
BTP Capping		263,043	4.60%	344,963	No change to premium
Without Capping			4.60%	344,963	
<i>Additional \$250,000 claims cost</i>					
BTP Capping		413,043	5.25%	393,750	Premium is capped at 1.5 times the BTP
Without Capping			6.25%	468,659	
<i>Additional \$594,000 claims cost</i>					
BTP Capping		757,043	5.25%	393,750	Premium is capped at 1.5 times the BTP
Without Capping			10.03%	752,333	

NOTES:

1. Claims cost is three complete policy years' incurred claims cost for premium purposes.
2. \$594,000 is the large claim limit for 2020-21. Costs over this amount are not included in premium claims cost. The large claim limit is indexed each year and will be different for 2021-22.

Can I switch from being a Small Employer on renewal to a Large Employer at hindsight adjustment?

Yes. From 2021-22 onwards it is possible that you may change from being categorised as a Small Employer when you declare your estimate wages at renewal, to a Large Employer on adjustment if your actual wages declared at the end of the policy period increase to more than \$2.5 million.

This would mean that your estimate premium payable would be your Base Tariff Premium and your actual premium payable would take into account your claims experience. That is, your actual premium would be experience-rated because you have changed from being a Small Employer to a Large Employer over the course of the policy year.

Does this change affect the hindsight adjustment of my 2020-21 premium?

No. The changes do not come into effect until the 2021-22 policy year.

Who can I contact for more Information on the new capping arrangements?

For more information you can see the Frequently Asked Questions on our website. Visit www.coalservices.com.au

If you have any questions, please contact your Account Manager or call Employer Services on (02) 8270 3257.