Australian Lawyers Alliance

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Joint Select Committee on the NSW Workers Compensation Scheme

Parliament House

Macquarie Street, Sydney

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24 May 2012

ALA Response to Question on Notice – Public hearing Monday 21 May

The ALA accepts that the critical issue with the WorkCover deficit is "poor investment returns". Any criticism of "investment strategies" was a poor choice of words. All investments have suffered poor returns during the global financial crisis.

The point is, when projecting into the future long term returns in investments should be used rather than short term returns. The stock market is volatile in the short term but relatively stable in the long term. If recent short term results are used then a "shock horror" picture can be painted for future liabilities. If, on the other hand, long term returns are utilised then a far less dramatic and precipitous outcome is projected.

The point about the PWC report is that 50% of the projected deficit is based on deteriorating rate of return on investments. It appears that the underlying assumption is for the global financial crisis to last indefinitely rather than a return to stable and profitable return on investments.

The ALA representatives gave evidence before the Committee that different outcomes for future projections can be made depending on the assumptions. The rate of return on investments is one such critical assumption. It appears that the assumptions used by PWC are unduly pessimistic (ie. based on the short term trend rather than long term trends).