

WRITTEN QUESTION 30

COMPENSATION CONTRIBUTION PREMIUM

Question

On page 19 of the MAC Business Statement of Corporate Intent, 2007-2010 it says "subject to any unforeseen events, and in particular strong growth in the investment markets, it is not anticipated that the compensation contribution premium will increase in the near future":

1. As the investment markets have lost a substantial amount of their value, how will this now impact on compensation contribution premiums.
2. If so, how much will the interest rate rise.

Answer

Annual Motor Accident Compensation (MAC) contribution amounts, paid by motorists when registering a vehicle, are determined by the Compensation Contributions Commissioner, who is appointed under section 49A of the *Motor Vehicles Act*.

The Commissioner makes determinations independently of Government, but is required to consult with the Treasurer and the Territory Insurance Office (TIO) in making such determinations. The Commissioner makes determinations with reference to actuarial forecasts of compensation claim costs and long term investment returns.

The 2007 MAC Business Statement of Corporate Intent (SCI) is a forward looking document which includes forecasts for the period 2007-08 to 2009-10. As a result it was prepared by TIO almost 18 months ago at a time when the prevailing financial and economic outlook was considerably more positive. Since then equities markets and interest rates have declined considerably with net investment income for the MAC Fund declining by \$38.7 million over the 2007-08 financial year.

In April 2008 the Compensation Contributions Commissioner determined an increase in contribution amounts of 2.4 per cent for 2008-09, primarily due to emerging volatility in capital markets and growth in claim costs. This increase was the first in four years.

The recent volatility in investment markets as well as growth in wages and medical costs (the key drivers of MAC claims costs) will need to be considered by the Contributions Commissioner as part of the determination for 2009-10 contribution amounts. The outcome will not be known until April or May 2009, after finalisation of necessary actuarial reports.