

Industry Custom Pricing - Experience Rating Option

Performance pricing refers to the distribution of premiums amongst employers in an industry based on individual performance. Premium adjustments based on individual employer experience aligns with the pricing principle of accountability, creates more of a user-pay pricing system and promotes injury prevention and disability management.

ICP – Experience Rating (ER) option

ICP allows some features from the standard ER model to be customized so that employer discounts and surcharges can be increased (up to a maximum of 60%).

Features from the standard ER model that can be customized with ICP include:

Participation Factor - The Participation Factor could be increased up to 100% with a participation rate of 1% for every \$1,000 in industry rated premiums.

Experience Ratio - The Experience Ratio could be increased up to 100%.

Maximum ER Adjustment - Discounts and surcharges could be increased up to 60%.

The formula used in determining an employer's experience rating adjustment under ICP is as follows:

$$\begin{array}{ccccccc} \text{Participation Factor} & * & \text{Experience Ratio} & = & \text{Maximum ER Adjustment} \\ (100\%) & & (100\%) & & (60\%) \end{array}$$

What is the standard Experience Rating (ER) model?

The Experience Rating Plan for Large Employers is a performance pricing program applied to employers with \$15,000 or more in industry-rated premiums over a three-year period. It distributes the cost of workers' compensation coverage among employers by starting with the industry rate and adjusting it for each employer in the industry to reflect the employers' actual accident experience. If an employer is performing better than expected, the employer receives a discount. If performing worse, the employer pays a surcharge.

The formula used in determining an employer's experience rating adjustment is as follows:

$$\begin{array}{ccccccc} \text{Participation Factor} & * & \text{Experience Ratio} & = & \text{Maximum ER Adjustment} \\ (50\%) & & (80\%) & & (40\%) \end{array}$$

Participation Factor - Reflects the size of an employer as it is based on premiums and calculated at 1% for every \$4,000 in industry-rated premiums over a three-year period, up to a maximum of 50%.

Experience Ratio - A measure of employer performance against an industry average or expected level of performance determined for the employer's size. Currently the experience ratio is capped at 80% better or worse than industry average.

Maximum ER Adjustment - The product of the above two elements, currently capped at a maximum adjustment (discount/surcharge) of 40%.

Example:

Employer A pays \$100,000 in premiums over a three-year period. At 1% for every \$4,000, the employer’s Participation Factor equals 25%. Employer A has \$35,000 in claim costs, compared to industry average of \$25,000, which means the employer’s performance is 40% worse than industry average (Experience Ratio = 40%). The result is a 10% surcharge (ER Adjustment) under the standard ER model.

ICP examples

The following examples illustrate the impact ICP could have on an employer’s current ER position under standard pricing:

	Employer A		Employer B	
	Standard Pricing	ICP	Standard Pricing	ICP
Employer premium*	\$100,000	\$100,000	\$200,000	\$200,000
Participation Rate	\$4,000	\$2,000	\$4,000	\$2,000
Participation	25%	50%	50%	100%
Employer Costs	\$35,000	\$35,000	\$20,000	\$20,000
Industry Average	\$25,000	\$25,000	\$50,000	\$50,000
Experience Ratio	40% (worse)	40% (worse)	60 % (better)	60% (better)
Adjustment	10% Surcharge	20% Surcharge	30% Discount	60% Discount

* Premium over a three year period calculated at industry rate.

More information

For more information on Industry Custom Pricing, please visit our website at : www.wcb.ab.ca/employers/ICP.asp, send an email to icp@wcb.ab.ca, or call our team in Underwriting at 780-498-7936.