

## Poor Performance Surcharge (PPS)

WCB-Alberta uses a performance-based pricing system to balance collective insurance protection for employers with individual employer accountability. To provide workers' compensation coverage at a fair price, employers that have similar operations and share similar risks are grouped together for premium rate-setting purposes. Premiums are then adjusted, providing discounts and surcharges, based on individual employer experience, creating more of a user-pay pricing system. Employers performing well pay less. Employers performing poorly pay more.

The *poor performance surcharge* applies to employers that have reached the maximum surcharge for their size in the large employer experience rating plan. For these employers, an additional poor performance surcharge may apply. The additional surcharge is designed to encourage employers to take immediate action to improve disability management and prevention.

The poor performance surcharge affects only those with consistently poor claims records who are in the experience rating plan for large employers. Employers who meet **both** of the following criteria receive additional surcharges:

- have the maximum experience rating surcharge for their size for two or more consecutive years (These employers' performance is 80 per cent worse than their rate group average)
- have four or more experienced rated claims for at least two consecutive experience periods

### PPS model

Effective Jan. 1, 2008, the Poor Performance Policy (Policy 07-02, Part II, Application 2) <http://www.wcb.ab.ca/public/policy/manual/0702p2a2.asp> was amended to increase the maximum poor performance surcharge that may apply.

The criteria to determine a PPS employer remains the same, however there were two changes to the level of the PPS:

1. The maximum PPS increased from 40 per cent to 200 per cent (over and above surcharges in the base experience rating plan).
2. The participation factor\* was eliminated from PPS calculations, though it is retained as a feature of the base experience rating plan for large employers. The participation factor was eliminated from PPS to make employers fully accountable for their claims experience (up to the maximum PPS amount). This change ensured the surcharge would not be limited by employer size, only by performance.

*\*Participation factor limits an employer's discounts and surcharges based on the company's size. The participation factor protects employers from excessive changes to their premium rates from one year to the next due to short term changes in their experience.*

Number of Consecutive years at maximum surcharge	Number of consecutive experience periods (3 years) with 4 or more claims	2010 maximum PPS amounts
1	1	0
2	2	25%
3	3	50%
4	4	100%
5 or more	5 or more	200%

### Experience rating plans

There are two mandatory experience rating programs within WCB-Alberta.

1) *Experience rating plan for small employers* – for employers with less than \$15,000 in premiums over a three-year period. Small employers can earn a five per cent discount or surcharge depending on the number of claims they have experienced. Employers in this plan are not subject to the Poor Performance Surcharge program.

2) *Experience rating plan for large employers* – for employers with \$15,000 or more in industry-rated premiums over a three-year period. Claims costs and insurable earnings are reviewed over an historical period to establish an employer's experience record. Depending on the employer's experience compared to other employers of the same size within the same rate group, large employers can earn a discount or receive a surcharge up to 40 per cent. An additional poor performance surcharge is applied to employers that are chronic poor performers and are at the maximum surcharge for their size in the experience rating plan.