
Industry Custom Pricing – Frequently Asked Questions

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1. Industry Custom Pricing

Q: What is Industry Custom Pricing?

WCB-Alberta has worked with industry stakeholders to develop a new pricing option that preserves the core pricing principles of fairness, accountability and collective liability. The result is a new program, Industry Custom Pricing (ICP).

ICP is a voluntary, flexible pricing option that allows industries to customize various features of WCB-Alberta's pricing program in accordance with their risk tolerance and preferences. The intent of ICP is to offer flexibility while strengthening accountability by more closely reflecting individual claims performance within our collective liability insurance model.

These options include maximums on discounts/surcharges, participation factors, experience ratios and cost relief.

Q: How could participating in ICP affect my premiums?

Depending on the ICP options the industry selects, employers could see a decrease in the industry base rate and they could see larger discounts and surcharges on individual employer accounts based on their performance. Employers who are doing well will likely pay less, while employers who are doing poorly may pay more. All employers (including non-experience rated employers) will have a levy removed from their premium rate if the cost relief option is chosen.

2. Advantages and Disadvantages of ICP

Q: What are the top three advantages of ICP?

1. Greater accountability and incentives for performance. ICP options set premiums that send significant and direct messages to employers about how well or poorly they are performing. For employers doing well their premiums will decrease, for employers doing poorly, their premiums will increase compared to the standard pricing programs. Collectively, industries will pay about the same total premium – it will be distributed differently within the industry to promote injury reduction and effective disability management.

2. Lower industry base rates. Currently, there is a levy on each industry's base rate to help fund the costs of cost relief. Choosing the cost relief option would lower each industry's base rates by their specific levy amount.

3. Favorable disability outcomes. Fewer injuries, quicker return to work. Employers would shift their efforts to prevention and disability management. This stronger focus on health, safety and disability management should work to lower the number of claims, shorten the duration of claims and reduce costs as workers return to work sooner.

Q: What is the disadvantage of ICP?

Some employers may pay more – typically employers who consistently have higher claim numbers and costs than others over a long period of time. These employers would become more accountable for their health and safety performance, relying less on the other employers in their industry to share the resulting premiums.

3. Customizing WCB-Alberta Pricing Programs

Q: What features can change in an ICP program?

Industry has the option to change four different features that will impact either the Experience Rating Plan for Large Employers or the Partnerships in Injury Reduction (PIR) program.

1. **Maximum Discount/Surcharge**
2. **Participation Factor**
3. **Experience Ratio**
4. **Cost Relief**

Industries can select to change one or more of the features noted above.

Q: How does the standard Experience Rating (ER) program work?

To determine an employer's discount, the basic ER formula (for employers who have been in business for at least five years) is as follows:

$$\text{Discount/Surcharges (40\%)} = \text{Participation Factor (50\%)} * \text{Experience Ratio (80\%)}$$

Using the current maximums in ER, an employer can earn up to a maximum 40% rate adjustment based on a maximum Participation Factor of 50% multiplied by a maximum Experience Ratio of 80%. The only way an employer receives the maximum discount is if they are at the maximums in Participation Factor and Experience Ratio.

The Participation Factor assigns a participation rate to every employer in the ER program. The larger an employer is (as measured by premiums), the larger their Participation Factor. Larger employers are eligible for bigger discounts and surcharges than medium or smaller employers.

The Experience Ratio measures how an employer is performing compared to their industry. It takes an employer's experience (claim costs/insurable earnings) and compares it to the industry's performance, adjusted for size. An employer's experience ratio is expressed as a percentage lower or higher than the industry average. If you are lower than industry average, you'll receive a discount – if you are higher, you will receive a surcharge

In ICP, industries choose to change either of these two features of Experience Rating, and also select a new maximum discount/surcharge. They can also change how cost relief is used to establish the Experience Ratio – this also impacts PIR refunds too. The next few sections describe each of these four features in more detail.

Maximum Discount/Surcharge

Q: How does ICP impact the maximum discount and surcharge in ER?

An industry can increase the maximum discount and surcharge up to 60% from the current maximum of 40%, or any amount in between. Changes to the participation factor and/or the experience ratio must be made in order for any change to the maximum discount or surcharge to have an impact.

Q: How does an employer earn the maximum discount and surcharge?

In ICP, there are several ways to earn the full 60% discount, depending on the options that are chosen. In our standard pricing model, employers must get a 40% discount in ER and a 20% discount in PIR to receive the full discount – only the largest and very best receive this discount.

In ICP, more employers can earn the discount in their customized ER program alone, or from a combination of their customized ER program and the PIR program – there is much greater opportunity to receive a bigger adjustment (discount or surcharge) to premiums through ICP.

Participation Factor

The Participation Factor assigns a participation rate to every employer in the ER program. The larger an employer is (as measured by premiums), the larger their Participation Factor. Larger employers are eligible for bigger discounts and surcharges than medium or smaller employers.

Q: How can the Participation Factor be modified?

In the standard ER program, each employer gets 1% of participation for every \$4000 in industry rated premium, up to a maximum of 50% participation. In ICP, an industry can select a different Participation Factor – by increasing the maximum participation up to 100%, and/or by changing the rate of participation to 1% for every \$2000 or even \$1000.

Q: What is the impact of changing the Participation Factor?

There are two outcomes that are achieved if an industry opts to modify their Participation Factor.

1. If the maximum amount is increased beyond 50%, employers will receive rate adjustments that are more reflective of their actual experience. In the standard ER system, an employer who was 60% better than industry could earn no more than a 30% discount, since their participation factor was capped at 50%. By increasing the cap to 100%, that same employer could earn up to a 60% discount for the same performance.
2. If an industry elects to change their participation rate, then medium or smaller employers would be eligible for bigger discounts or surcharges. An employer who pays \$40,000 in premium over three years can earn a maximum discount or surcharge of 10% in the standard ER program. If the industry changes the participation rate from 1% for every \$4000 to 1% for every \$1000, that same employer could receive up to a maximum discount or surcharge of 40%.

Experience Ratio

The Experience Ratio measures how an employer is performing compared to their industry. It takes an employer's experience (claim costs/insurable earnings) and compares it to the industry's performance, adjusted for size. An employer's experience ratio is expressed as a percentage lower or higher than the industry average. If you are lower than industry average, you'll receive a discount – if you are higher, you will receive a surcharge

Q: How can the Experience Ratio be changed?

In the standard ER program, the Experience Ratio is capped at 80%. In ICP, the Experience Ratio can be increased up to 100%.

Q: What is the impact of changing the Experience Ratio?

Employers in ICP industries have the potential for more of their performance to be used in determining their discount or surcharge. If an employer has no claims, and therefore no claim costs, the maximum Experience Ratio they get in standard ER is 80%. In ICP, it could be 100% - and those employers would receive larger discounts. If an employer was 100% (or more) worse than industry, they would be subject to bigger surcharges.

Cost Relief

Q: What is cost relief?

Cost relief takes the costs from an employer's experience record and transfers them to the industry. Cost relief does not affect the costs of a claim – there is no change to the benefits for a worker or health care costs that WCB-Alberta must pay. Instead of the costs of their claim being on the employer's record, those costs are shared by the industry.

Q: How does cost relief work?

Experience Rating (ER) and Partnerships in Injury Reduction (PIR) use claim costs to measure the performance of employers. Employers who have good performance pay lower premiums while employers who have poor performance pay more. However, not all claim costs are used to measure overall performance.

Some claim costs are capped and some costs are relieved from an employer's experience record for specific conditions. These are exceptions but they do influence an employer's overall experience rating. Included in this group are costs related to the aggravation of a pre-existing condition.

We have heard from many employers that the costs associated with the aggravation of a pre-existing condition should form part of an employer's experience record. These claims can be prevented in some cases and still need to be managed in all cases. After all, these costs still have to be paid for by all employers in the industry.

Some employers who get cost relief may get better results in ER and PIR because their costs appear lower than they actually are. But these better results are paid for by the all of the employers in the industry. An employer's accountability may be reduced but it is transferred as a subsidy to the rest of the industry. Cost relief for aggravational claims is one of the optional features of ICP.

Q: Is WCB-Alberta changing or eliminating the cost relief policy?

No, we are not changing or eliminating the current cost relief policy but rather offering voluntary, flexible pricing programs for industries.

Q: What is the cost relief option of the ICP program?

In ICP, industries can select an option so that cost relief would no longer be removed from experience rated costs. (This option only applies to cost relief related to work accidents that aggravate a pre-existing condition. Other types of cost relief would still apply). By choosing the cost relief option, ER and PIR will reflect a greater amount of the total cost of the claims and improve the accountability in terms of measuring employer performance. Instead of having costs shared at the industry level, costs would remain on the employer's record – impacting their discounts and surcharges.

Q: How does cost relief impact premiums?

Whether there is cost relief or not, we still require the same overall premiums be collected from the industry to cover that industry's claim costs. The only exception is the levy built into industry rates to pay for retroactive cost relief – industries choosing not to use cost relief on pre-existing conditions are no longer required to fund that levy.

What cost relief does is change the distribution of premiums amongst the employers in the industry. Employers who use cost relief to transfer costs from their record to the industry level compare favourably to other employers in the industry who lowered their costs by prevention and disability management efforts.

By choosing the cost relief option, an employer's adjustment (either discount or surcharge) is much more closely related to their accident experience, and there is less of a subsidy from other employers in the industry to those using cost relief.

Q: How does the cost relief option work?

Industries can choose to include costs associated with the aggravation of a pre-existing condition in the measurement pool for employers in ER and PIR. Doing so means that adjustments to premiums are more closely tied to actual performance in prevention and disability management. If those costs remain outside of the pool of costs (i.e. through cost relief), then all employers will continue to subsidize those claims – and there is no incentive or reward for trying to return those workers back to work. If an industry chooses this option, the levy for cost relief will be removed from the industry's premium rate.

Q: How does choosing the cost relief option affect employers in my industry?

1. All employers in the industry will see the levy removed from their premium rate. This amount varies, but is usually about \$0.02 per \$1.00 of premium rate. If your industry rate was \$2.00, you would probably see a revised industry rate of \$1.96 if you selected the cost relief option.
2. Employers in ER are also impacted by how the industry average is set. Currently industry averages are set based on claim costs with cost relief excluded. If your industry selected the cost relief option, the baseline for comparison would go up – regardless of whether or not you used cost relief. Employers would be rated against industry averages that were higher, making their actual performance look better by comparison – especially if they did not use cost relief previously.
3. Employers who use cost relief would have those costs added back into their records. An employer's claim costs would still be subject to the maximum per claim cost (MPCC) for their size – so not all the costs would necessarily affect performance. If an employer had costs added back in because they have used cost relief in the past, the increase would be mitigated in many cases by a higher industry average, a lower premium rate and the MPCC.

In most cases, when the cost relief option is chosen in an industry, over 90% of the employers in any given year are better off (i.e. lower premiums) than they were with cost relief. In fact, very few employers are consistently better off with cost relief. To consistently gain from cost relief an employer needs a higher percentage of cost relief year over year compared to their fellow employers – this represents a very small number of accounts.

Q: Why would I want to include more costs on employer records?

It really comes down to two things - lower rates by removing the levy and improved accountability. In return for including more costs to assess performance, industries that selected the cost relief option would not be required to fund the retroactive cost relief amounts. The cost relief option means your industry base premium rates will be lower since we won't charge this levy.

Accountability is improved as an employer's record will reflect a greater amount of the costs for workplace injuries that occurred at their worksite. Under the cost relief option, collectively the industry would still pay the same premiums – employers who transferred some of their costs to the rest of their industry would no longer enjoy that subsidy. This will improve incentives and create greater accountability in the industry to prevent and manage claims.

Q: Are there other protections to ensure my claim costs are fair?

Employers will continue to be protected from high cost claims through the use of the *Maximum per Claim Cost*. Additionally all other types of cost transfers are still available to effectively manage premium rates. This change only impacts cost relief for pre-existing conditions.

Q: Will most employers see a benefit?

The majority of employers will see a benefit through removing the levy from their rates – collectively the industry will pay lower total premiums without the levy. However, it is important to recognize that some employers who used cost relief to transfer their costs to the rest of the industry may now pay more, as their experience will reflect these costs.

4. Polling and Voting

Q: How was it determined that an industry will participate in ICP?

In order for an industry to choose an ICP program, a majority of the insurable earnings (over 50%) must vote affirmatively that they want the option. Please note that the 50% standard applies to all of the insurable earnings in the industry, not just the percentage that responded. So in all cases where an industry is participating in ICP, employers with over 50% of the total insurable earnings have voted in favor of the program.

Q: How are industries selected for polling?

Many groups have industry associations that represent their industry's views. We are working with many of these associations to discuss options on ICP. In these industries, we are seeking the support of the industry association to poll their membership.

There are also a vast number of industries who are not represented by industry associations. In these cases, the WCB-Alberta will conduct the polling for targeted industries to make them aware of the ICP options and the potential benefits to their industry for participation.

Q: Can an industry opt out or modify ICP in the future?

Yes, ICP is a voluntary pricing program. Industries have the option of returning to the standard programs, or changing options in their existing ICP program. The same process of voting would be required for opting out of ICP or making changes to ICP as was required to start an ICP program.

5. Next Steps

Q. How do I get involved?

In order to get things started, representatives from your industry and WCB-Alberta should meet to discuss the customized pricing options. WCB-Alberta will explain all the features for you and your group to consider. Additionally we can prepare models and simulations of the impact of various ICP options.

Q. Who do I contact to learn more about ICP?

To find out more, you can contact the Underwriting team at WCB-Alberta. They can be reached by calling our WCB-Alberta toll free number (in Alberta) 1-866-922-9221 or directly at 780-498-7937 or by emailing icp@wcb.ab.ca. If you have an account manager, you can also contact them for more information.