Pricing

Workers' Compensation Insurance

2016

Contents

WCB Workers' Compensation Board
Alberta

Working for a safe, healthy, strong Alberta

Pricing Overview

Employers pay premiums to fund workers' compensation insurance. WCB-Alberta determines premium requirements annually based on the best estimates of insurable earnings and costs for the year. Pricing refers to the distribution of premiums among employers.

The objectives of WCB's pricing programs are to:

1) Collect the amount of premiums needed to **cover all current and future costs for 2016 claims** from employers operating in 2016.

   Premiums cover worker benefits; health care; administration; transfers to WH&S, safety associations, Appeals Commission and medical panels; pricing incentives; and fund balance and reserve requirements.

2) **Promote accountability and recognize disability management** through distribution of premiums among industries and employers.

   Distributing premiums through pricing programs helps maintain collective liability while promoting fairness and accountability for workplace injury and illness.

WCB's pricing formula is simple.

Pricing Programs at a Glance

Pricing program	Available to all employers	Large employers only	Mandatory	Voluntary
Rate Setting Distributes premiums among all industries.	✓		✓	
Experience Rating Plan Distributes industry premiums among employers within an industry.	✓		✓	
Partnerships in Injury Reduction Recognizes employers for injury prevention and disability management.	✓			✓
Industry Custom Pricing Customizes pricing at industry level based on industry's risk preferences.	✓			✓
Poor Performance Surcharge Focuses on employers who are consistently the worst performers.		✓	✓	

Experience Rating Plan for Small Employers

A set of discounts and surcharges has been designed specifically for small businesses that recognize workers' compensation claims experience and encourages efforts towards building health and safety programs. Employers with less than $15,000 in premiums over a three-year period generally have relatively few claims compared to larger employers. Accordingly, WCB reviews five years of claims information to ensure that discounts and surcharges applied to small businesses are based on reliable data. Small employers can earn either a 5% discount or a 5% surcharge, depending on the number of claims they have experienced. If an employer has not had any lost time claims in the first five of the previous six year period, they will receive a 5% premium discount. To qualify for the discount, an employer must have been in business for those five years. If an employer has between one and four lost time claims, they will receive no adjustment and will pay premiums based on the industry rate. If they have had five or more lost time claims during the five year period, they will receive a 5% premium surcharge. The surcharge is clearly related to poor accident experience by the small business and thereby promotes greater accountability through higher premiums.

Experience Rating Plan for Small Employers		
Employer	**Lost Time Claims**	**Rate Adjustment**
1	0	5% discount
2	1-4	no adjustment
3	5+	surcharge

Experience Rating Plan for Large Employers

A different set of discounts and surcharges are available for larger employers that recognizes effective health, safety and disability management programs. The Experience Rating Plan for large employers distributes the cost of workers' compensation coverage among employers by adjusting the industry premium rate based on the company's actual accident experience. If an employer has lower than average claim costs, the employer could earn a discount of up to 40% from their industry premium rate. If an employer has higher than average claim costs, the employer could receive a surcharge of up to 40%.

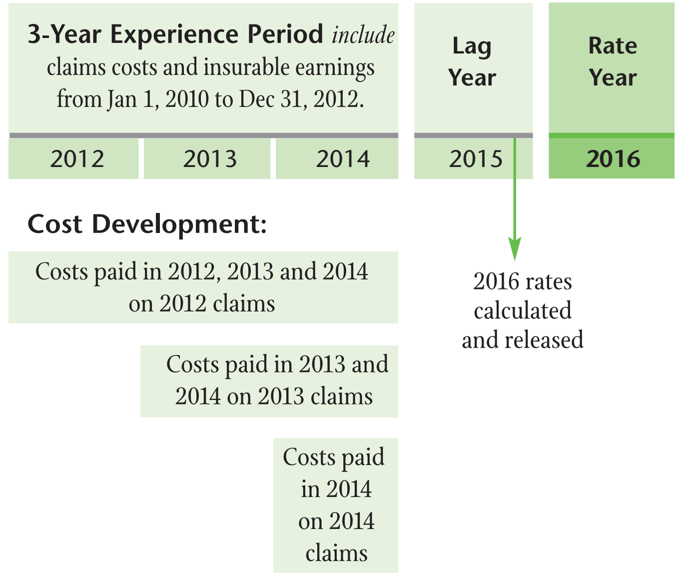
Who participates?

Employers with $15,000 or more in industry rated premiums over three years are automatically included in the Experience Rating Plan for large employers. The extent to which an employer participates depends on the company's size. Large employers participate fully; medium sized employers participate on a partial basis. This ensures premium adjustments are based on statistically credible information and that an employer's premiums are not unfairly impacted by a single incident. It provides more insurance protection and reduces the likelihood of extreme fluctuations in an employer's premiums from year to year.

Premiums Over 3 Years	Program Participation
Over $200,000	Full Experience Rating
$15,000 - $200,000	Partial Experience Rating
Under $15,000	Experience Rating Plan for Small Employers

Experience Period Experience Ratio

Claim costs and insurable earnings for workers covered are reviewed over a historical period to establish an employer's experience record based on accident trends, not on random events. The first three of the previous four years is used as the experience period. During this time, claim costs and insurable earnings are evaluated to measure an employer's experience. Costs paid beyond the experience period and certain relieved costs are not included. This example shows that the accident experience from 2012 to 2014 will be used to adjust premium rates for 2016.



Determining the Discount/Surcharge

Three elements – experience ratio, participation factor and eligibility factor – are used to calculate the discount or surcharge applied to an employer's industry rate.

Experience Ratio **x** Participation Factor **x** Eligibility Factor **=** **Discount or Surcharge**

Experience Ratio

The experience ratio is the comparison of the employer's accident experience to the average of the Rate Group in which the employers' industry is categorized. It is determined by comparing an employer's claim costs to the industry average claim costs for the experience period.

In determining the experience ratio, claims cost on an employer's experience record may be adjusted or capped to provide appropriate insurance protection. The Maximum Per Claim Cost (MPCC) limits the amount charged to an employer's accident experience for a single claim.

The MPCC is 10% of the employer's industry rated premium for the three-year experience period, up to the maximum annual insurable earnings reported per worker ($98,700 for 2016). The MPCC protects employers from shifts in their premium rates due to the random occurrence of a single expensive claim. The cap does not impact the benefits paid to injured workers in any way.

In addition, a Maximum Per Incident Cost (MPIC) limits the impact of rare cases where a single incident results in multiple claims for an employer (e.g. car accident with several passengers). The MPIC is capped at twice the maximum insurable earnings amount ($197,400 in 2016) to protect employers against random incidents where multiple claims occur. It is the employer's responsibility to identify MPIC claims and notify WCB of their occurrence.

Employers may also be eligible for cost relief for different circumstances. In such cases, certain costs in an employer's experience record may not be used to determine the experience ratio.

Example of an experience ratio formula calculation:

Employer Claim Costs		Industry Average Claim Costs		Experience Ratio
$100,000	÷	**$200,000**	-1 =	**-50% (Better)**

Participation Factor

The degree to which an employer participates in Experience Rating (the participation factor) varies according to the size of the employer. Employer discounts and surcharges are limited by their participation factor. Those employers who have $15,000 in three-year industry rated premiums may receive a discount or surcharge up to 5% while those with over $200,000 in premiums may receive up to a 40% adjustment. The example illustrates what an employer's maximum discount or surcharge would be, based on industry rated premiums and participation factors. For every $4,000 of industry rated premiums over the three-year experience period, an employer receives a 1% participation factor (to a maximum of 50%).

The participation factor protects employers from excessive changes to their premium rates and also ensures rate adjustments are based on statistically credible information.

Three-year Industry Rated Premiums	Participation Factor	Maximum Discount or Surcharge
$15,000 - 25,000	6.25%	5%
$40,000	10%	8%
$100,000	25%	20%
$200,000+	50%	40%

Eligibility Factor

The eligibility factor refers to the number of years the employer's account was open during the three-year experience period. Since one or two years of experience does not usually provide sufficient statistical information to reliably adjust premium rates, employers with less than three years of experience are only eligible for modified experience rating adjustments.

This chart illustrates the maximum discount available for an employer based on their years of experience.

Years of Experience	Experience Ratio		Participation Factor		Eligibility Factor		Discount
One Year	-80%	x	50%	x	1/3	=	13.33%
Two Years	-80%	x	50%	x	2/3	=	26.67%
Three Years	-80%	x	50%	x	1	=	40%

Poor Performance Surcharge (PPS)
for Large Employers

For large employers with very poor accident records, the maximum surcharge in the Experience Rating Plan may not provide enough motivation for them to improve their performance. For these employers, an additional poor performance surcharge applies. This surcharge encourages employers to take immediate action to improve health and safety and claims management efforts to help reduce injuries and avoid further surcharges. WCB offers claims audits and disability management consultation to employers to help evaluate their disability management programs and identify areas for improvement. In addition, employers will be referred to outside resources including Alberta Human Services (Workplace Health and Safety) to improve injury and accident prevention.

The poor performance surcharge will affect only those employers with consistently poor accident records. Employers who meet both of the following criteria will receive additional surcharges:

1) **Have the maximum experience rating surcharge for their size for two or more consecutive years.**
2) **Have four or more claims for at least two consecutive experience periods. (The first three of the previous four years is used as the experience period.)**

The participation factor used in the experience rating program for large employers is not used in the PPS calculations. Employers will be more accountable for the full impact of their claims experience as the surcharge will not be limited by employer size, only by performance. Employers will receive a 1% PPS for every 1% that their experience exceeds the maximum experience used in the experience rating program (up to the maximum PPS amount applicable for that year).

# of Consecutive Years at Maximum Surcharge	# of Consecutive Experience Periods With 4 or More Claims	Experience Rating Plan Maximum Surcharge*	Poor Performance Surcharge
1	1	up to 40%	no additional surcharge
2	2	up to 40%	up to 25% additional surcharge
3	3	up to 40%	up to 50% additional surcharge
4	4	up to 40%	up to 100% additional surcharge
5 or more	5 or more	up to 40%	up to 200% additional surcharge

* *Industries participating in Industry Custom Pricing (ICP) are still subject to the PPS in addition to any surcharges applied through ICP.*

Partnerships in Injury Reduction (PIR)

for all Employers

By joining Partnerships in Injury Reduction, you can reduce your WCB premium in one of three ways:

- Achieve or maintain a Certificate of Recognition (COR).
- Improve your performance.
- Maintain industry leadership.

WCB will award an industry rate discount based on the highest score obtained among the three incentive opportunities, up to a maximum discount of 20%. However, you must have your COR before any discount can be awarded.

FIRST

For a Certificate of Recognition (COR)

By maintaining or recertifying a COR an employer is eligible for a 5% industry rate discount.

For employers achieving a COR for the first time, a 10% industry rate discount is provided for the first year. This discount is paid in the year the COR is achieved.

THEN

1-20% For improving your performance

This measure compares your current accident performance to your historical performance. Claim costs transacted in the measurement year compared to claim costs transacted in the prior year are used to measure success in both preventing injuries and managing claims that occur. You can earn an industry rate discount of 1% for every 1% improvement up to a maximum of 20%.

Improvement in Claim Costs Performance Over Prior Year	PIR Discount
2%	5%*
10%	10%
20% or better	20%

***10% COR for first year for first time COR holders**

OR

10-20% For maintaining industry leadership

This measures improvements in your claims experience in comparison to the average for your industry's rate group over the same period. To earn discounts from this measure, you need a COR and claim costs that are at least 50% lower than the industry average for two consecutive years.

Percentage lower than industry average claim costs for two consecutive years	PIR Discount (including COR discount)
50% or lower	10%
65% or lower	12.5%
80% or lower	15%
90% or lower	20%

Industry Custom Pricing (ICP)

Industry Custom Pricing (ICP) is a voluntary flexible pricing option that allows industries to customize various features of Experience Rating in accordance with their risk preferences. The intent of ICP is to offer a program that provides flexibility, encourages accountability and more closely reflects individual claims performance while focusing on injury prevention.

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

- **Maximum discounts and surcharges:** Discounts could potentially increase to as high as 60%. Surcharges are generally set at the same maximum level as discounts however they could potentially be higher. The discounts and surcharges are dependant on changes made to the other factors of the Experience Rating model.

- **Experience ratio:** Currently the experience ratio is capped at 80% better or worse than industry average. With Industry Custom Pricing, this could be increased as high as 100%.

- **Participation:** The participation factor could be increased as high as 100%, with a participation rate as low as 1%/$1000 in premiums. This will allow smaller and medium sized employers to participate more aggressively in performance based pricing, with opportunities to have greater discounts or surcharges. Combining an increased participation factor with an increased experience ratio also allows larger employers to earn greater discounts and surcharges.

- **Costs used to measure performance** – Specifically, the option to not use cost relief for an aggravation of a pre-existing condition: Currently, costs resulting from claims where there has been an aggravation of a pre-existing condition are not used when measuring an employers' performance against the industry. Included in premium rates is a levy to fund the usage of retroactive cost relief for these instances, and all employers pay this levy. If an industry chose to no longer recognize cost relief for an aggravation of a pre-existing condition, the levy required to fund retroactive cost relief could be removed when setting rates, resulting in decreases to base industry rates. This would also allow for a more accurate assessment of performance within an industry. All other cost relief, cost capping and cost transfers would still be applied in Experience Rating (hearing loss, negligence, MPCC, etc).

Industries participating in ICP are still eligible to earn up to a 20% discount in the Partnerships in Injury Reduction (PIR) program as long as the combined maximum discount does not exceed 60%. ICP participants are also still subject to the Poor Performance Surcharge (PPS) up to 200% in addition to surcharges applied through ICP.

In order for an industry to participate in ICP, the majority of the industry must agree to the changes (over 50% of insurable earnings represented by employers within the industry). With a majority vote, all employers in the industry participate in ICP regardless of how they voted individually.

Glossary of Terms

Certificate of Recognition – a certificate issued to employers who have successfully implemented a basic workplace health and safety management system.

Claim Costs – the amounts paid by WCB for compensation, medical aid and rehabilitation on a claim.

Cost Relief – costs removed from the employer's experience record when calculating their rate adjustment. These costs are shared by all employers in the rate group through standard rate setting methodology.

Industry Rated Premiums – the insurable earnings of an employer multiplied by their unadjusted industry rate.

Insurable Earnings – the portion of workers' gross earnings on which employers must report and pay WCB premiums.

Large Employer – an employer who has $15,000 or more in industry rated premiums over a period of three years.

Premium – the amount employers pay to WCB for workers' and optional personal coverage.

Premium Rate – the rate at which workers' compensation coverage is priced.

Rate Group – a grouping of industries with similar activities, claim types and costs per claim. The rate group is the primary level at which industry premium rates are determined.

Small Employer – an employer who has less than $15,000 in industry rated premiums over a period of three years.

For more information on WCB pricing please call:

Workers' Compensation Board-Alberta
- Edmonton: 780-498-3999
- Calgary: 403-517-6000
- Call toll free in Alberta: 1-866-WCB-WCB1 (1-866-922-9221)

For general information about WCB-Alberta, please visit our website at www.wcb.ab.ca

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