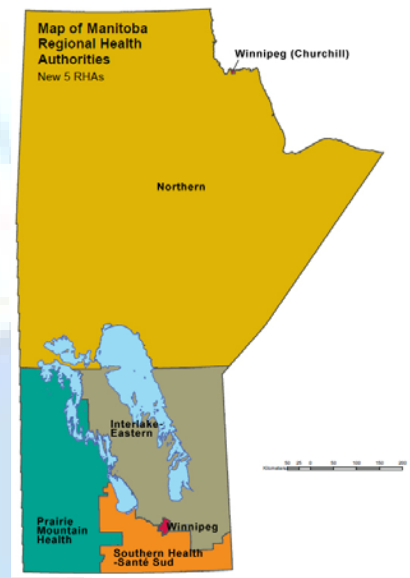
Winnipeg Regional Health Authority
(on behalf of RHAM)
Submission
to the
Comprehensive Review
of the WCB
Assessment Rate Model

Thank you for the opportunity to provide input to Comprehensive Review of Manitoba's WCB Rate Assessment Model.

It is our understanding that the scope of the review includes confirming the goals and objectives of the rate model, conducting consultations with stakeholders, identifying options for considerations, impact analysis of identified options, and final recommendations to the Board of Directors and that the purpose of the consultation phase is to solicit feedback from stakeholders on the relative strengths and limitations of the current rate model including its impact on employers and workers, as well as their views on what is needed from the rate model in the future, with emphasis on the model's fairness, financial soundness, and relationship to injury and illness prevention and disability management.

This submission will address the impact of the current rate setting model steps on the Regional Health Authorities of Manitoba as well as the review topics that were presented in the discussion paper.

Industry Background:
The Regional Health Authorities of Manitoba Inc. (RHAM) is a non-profit corporation established to pursue joint activities of mutual benefit to the Regional Health Authorities (RHAs). RHAM is governed by a board of directors, appointed by the Members, comprised of the CEOs from each of the RHAs. It assists its members in improving the quality and delivery of Manitoba's health services. Providing members with support services and the legal ability to pursue joint initiatives fulfills this role.



There are five regional health authorities in the Province of Manitoba employing approximately 50,000 employees.

- Winnipeg Regional Health Authority (including Churchill)
- Interlake Eastern
- Southern Health – Sante Sud
- Prairie Mountain Health
- Northern

The five regional health authorities are **Class E** employers meaning that they are assessed on an insured payroll basis and fall under the WCB rate setting model unlike the Province of Manitoba and its agencies which are self insured.

Response to the Discussion Paper on the Rate Setting Model

Introduction

The discussion paper on the rate setting model prepared by Mr. Stanley makes the following statements:

"We believe that stakeholder support for the Worker's Compensation system is essential to its long-term sustainability. Therefore, rate setting must be "responsive to stakeholders' legitimate interests."

And

"When stakeholders lose confidence in the security, efficiency or fairness of the system (and administrators) to deliver its intended goals becomes more difficult."

As one of the largest employers in the Province of Manitoba we do not feel that the current rate setting model is responsive to our legitimate interests and do not feel that it delivers its intended goals. The effects of its aggressiveness and volatility appear to be an unintended consequence to the very large employer. Please see the analysis of rate setting model on larger employers at the end of the submission.

Manitoba's Goal in Rate Setting

The discussion paper lists one of the goals as follows:
Protects employers (particularly small employers) from the financial devastation that might accompany a large claim through collective liability.

This does not take into account the financial impact that might affect an employer with a large payroll due to the aggressiveness and volatility of the current rate setting model which is detailed in the analysis at the end of the submission.

Rate Setting and the Costs of the System

Question: Do Stakeholders still agree with the above?
While we support the five Meredith Principles and the intent that Workers Compensation is intended to be a "fully funded program" to pay the present and future costs of injuries in that year, including administrative expenses, we do not feel that the costs of the system are fairly distributed between employers within the province.

What is fair in rate setting?

Question: Do Stakeholders still agree that there should be no intergenerational subsidization amongst employer?
We agree that there should be no intergenerational subsidization amongst employers and that the current years employers should pay the full costs of the current years injuries and the future costs of those injuries but once again disagree with the distribution of these costs and the effects on the largest employers and the healthcare system due to the current rate setting model.

Achieving Safer Workplaces

In examining the current rate setting model it is based on direct costs incurred and claims duration which are not effective measures of a safer workplace or compliance with the Workplace Safety and Health Act and Regulations. These direct costs are also affected by increases in both wages and medical costs. Claim duration (Step 4 – Claim Duration points) also impacts the rate setting model.

Question: Should WCB consider administrative penalties, based on measures related to failure to meet best practice prevention standards, for employers who consistently contribute greater costs to the systems than their peers?

If the WCB considers these administrative penalties for those that fail to meet best practice prevention standards and consistently contribute greater costs to the system than their peers then the WCB must also consider rewards or decreased premiums for those that do meet these standards.

Question: If safety practices were incorporated into the rate model process, would it result in WCB having to administer an overly complex and inefficient system how could that issue be addressed, especially for smaller employers?
The implementation of prevention incentive programs similar to the construction sector's COR in other industries could address this need.

Experience Rating Responsiveness and Rate Volatility
As mentioned previously, the current rate setting model is very aggressive and volatile as it relates to the all employers. However, the financial impact of this volatility is more significant when examining the effects on an employer with a large payroll.

Regarding the Annual Change Limits
The Manitoba rate setting model is one of the most aggressive and volatile when compared with other provinces. This fact was presented in the Petrie report and was acknowledged by the firm of Morneau Shepell and Mr. Douglas Stanley.

It is stated that "The WCB rate setting model has built-in limits to prevent rates from increasing or decreasing too quickly". However, in a large firm, an increase of 5% in the rate can have a dramatic effective on the premium itself.

For example: A first step increase of 5% for a firm with a rate of $1.84 with a payroll of over $300,000,000 can result in an additional $750,000 per year in the premium.

Regarding the Range of each Risk Category
Currently, each category has a range from 40% below to 200% above its average rate. As stated in Mr. Petrie's report, "*Manitoba's 40% maximum amount that a firm's assessment rate can decrease below its category average rate is generally in line with most other jurisdictions. However, Manitoba's maximum upper limit of 200% is significantly higher than Alberta 40%, British Columbia 80% and New Brunswick's 100%."*

In addition, less than .1% of Manitoba Class E employers have annual payroll of $100 million or more. We do not feel that the impact on firms of this size has been taken into account. While we agree that as stated in the discussion paper that a high cost claim increases a large employer's rate but to a lesser extent than for either the small or medium employer, the impact of the current aggressive rate setting system on a firm of this size can be enormous.

Transparency in Rate Setting
Questions: Is the current rate setting model 'transparent' on both these levels?

We do not feel that stakeholders understand the math of the current rate setting mechanism. This is also stated in Mr. Petrie's report, "There is also general agreement that the Assessment rate model is complex and difficult to understand by many employers."

In many cases, prevention activities resulting in a reduction in the number of WCB claims can still lead to an increase in assessment rate. It is difficult to understand the rate setting formula and the link between injury and cost reduction and the formula itself.

Analysis of Effects of the Current Rate Setting Model on Larger Employers Manitoba

The current rate setting model appears to be built with the small to medium business in mind. The effects on a large not for profit firm which employs a high percentage of professional staff with degrees and designations can be quite different as evidenced in the following analysis of the steps of the rate setting model.

Overall Rate Setting Model – Rate is paid per $100 of Payroll
As the rate is paid per $100 of payroll, organizations that employ highly skilled professionals with degrees and designations pay much higher overall premiums due to the higher salaries they pay.

For example, the total payroll salary of 1,000 healthcare employees is substantially different than the total payroll salary of 1,000 retail or service industry workers. If healthcare and the food services industry were placed side-by- side for a year and each had zero injuries and zero time loss, Healthcare's premiums would still surpass the food services industry solely because it employs a highly skilled and highly educated workforce.

Beginning in 2006, the cap for maximum assessable earnings was phased out.

2009	2010	2011	2012	2013	2014
$83,000	$89,000	$96,000	$104,000	$111,000	$119,000

In an industry with a large percentage of its workforce in this wage scale this has had a significant impact on the healthcare industry through an increase in premium as it is paid per $100 of payroll. It can be noted in the chart that Manitoba has the highest Maximum Assessable Earning.

Jurisdiction	Maximum Assessable – Insurable Earnings
Newfoundland & Labrador	$60,760
Prince Edward Island	$51,100
Nova Scotia	$56,000
New Brunswick	$60,100
Quebec	$69,000
Ontario	$84,100
Manitoba	$119,000
Saskatchewan	$59,000
Alberta	$92,300
British Columbia	$77,900
Yukon	$83,501
Northwest Territories & Nunavut	$84,200

Source: Association of Workers Compensation Boards of Canada

Step 2: Establishing a Target Rate (based on direct costs ratio)
The current rate setting model is largely based on direct costs related to claims occurring in the previous five years.

Number of injuries and duration may decrease however with the removal of the salary cap, salary increases and rising medical costs, the direct costs related to these injuries may still rise prompting an increase in the assessment rate.

Step 3: The Basic Change Limit
It is stated that "The WCB rate setting model has built-in limits to prevent rates from increasing or decreasing too quickly. Rate changes are limited based on the number of years a rate has trended in the same direction. As such, consistent claims costs over the years will move an employer more quickly toward their target rate, whereas a random event in one year will have a more limited impact."

Year	-	+
First*	5%	10%
Second	10%	20%
Third	15%	30%
Fourth	20%	40%
Fifth +	25%	50%

Although an increase or decrease of 5% or 10% may not have a large impact on a small or medium size firm, these percentages become very large when dealing with a firm with a large payroll such as those that exist within the healthcare industry.

For example: A first step increase of 5% for a firm with a rate of $1.84 with a payroll of over $300,000,000 can result in an additional $750,000 per year in the premium or a difference between the 1st step down maximum decrease of 5% and the 1st step up increase of 10% amounting to over a million dollars.

The difference between these increases and decreases should be reduced to impact the volatility of the model.

Step 4: Claim Duration Points
The Claim Duration Change Limit is based on a point system and an accumulation of points can generate an additional 5% increase or decrease to the rate.

The data on which the Claim Duration Points are calculated may not be accurate as evidenced by recent recalculations within our industry resulting in large refunds of previously paid assessments. Also, this data is not readily available on an ongoing basis to allow employers to chart their progress throughout the rate setting year. If this process is to continue it should be added to the WCB Online – Safe Work Reports.

Many staff within our industry are part time and casual staff which affect the calculation of the days lost on which the duration points are based. It is very difficult to understand how this is calculated.

It is of interest to note that Manitoba is the only Canadian jurisdiction which includes Claim Duration as part of their rate setting model.

Step 5: Apply the Category Rate Range
Employers with payroll over $7 million can go to a lower category rate range. Our smaller sites are putting the same efforts into injury prevention however as long as the average rate remains the same they do not see a decrease.

Example: Firm on 8th down still pays the same assessment rate no matter how much prevention they do. They could have zero accidents and costs and continue to pay the same.

Step 7: Balancing Adjustment
The balancing adjustment is 2.99% for 2014. Once again, the impact on a large firm needs to be considered.

Example: Firm with $300,000,000 payroll with a rate prior to the balancing adjustment changes their rate from $2.024 to $2.08. Dollar wise this amounts to approximately $169,000.

Also, the adjustment is a percentage so the exact dollar amount applied is dependent upon where they sit in the rate setting model. A firm with the same payroll and the same direct costs could pay a substantially higher balancing adjustment if they are at a higher rate.

Example:

Rate Before Balancing Factor	Rate After Balancing Factor	Payroll** (this is the payroll amount you reported to WCB that your assessment is based on)	Approximate Assessment before Balancing Factor	Approximate Assessment After Balancing Factor	Increase in Assessment by Balancing Factor
2.024	2.08	$302,086,803.00	$6,114,236.89	$6,283,405.50	$169,168.61
2.91	3	$302,086,803.00	$8,790,725.97	$9,062,604.09	$271,878.12
					$102,709.51

Step 8: Safety Association Levy

Safety Associations are currently in place for Agricultural Manufacturers of Canada, Manitoba Heavy Construction, Construction Safety Association of Manitoba, and Safe Hospitality. The additional levy on the assessment rate of the firms included in these rate codes ranges from 6.32% to 9.78%.

We do not support the formation of a separate Healthcare Safety Association nor an additional levy to our already high assessments rates for this purpose. The infrastructure is already in place through the Regional Health Authority of Manitoba (RHAM) and other provincial groups such as the Provincial Workplace Safety & Health Working Group and Provincial Human Resources Council. Materials such as training, documents, programs, etc. related to Occupational Safety and Health are freely shared throughout the five regions.

Once again, we would like to thank you for the opportunity to participate in this review process.

Winnipeg Regional Health Authority on behalf of the Regional Health Authorities of Manitoba
June 2014