WCB's New Assessment Rate Model

Introduction

In 2018, WCB assessment rates for Manitoba's covered employers will be determined by a new assessment rate model with features that are significantly different from the current model. For 2016 and 2017, the current rate model will undergo important changes that will help provide a smooth transition to the new model. Even after the new model is introduced in 2018, further changes will be phased in for 2019 and 2020. By 2020, all the features of the new model will be in place.

What is the WCB assessment rate model?

The workers compensation system is funded through employer premiums. The system includes not just the Workers Compensation Board, but also SAFE Work Manitoba, Workplace Safety and Health, the Appeal Commission, and the Worker Advisor Office.

Except for a small number of self-insured employers, the assessment rate model determines each employer's annual assessment rate, which represents their fair share of the costs of the total system. An employer's premium is their assessment rate times every $100 of assessable payroll.

An employer's assessment rate reflects their level of risk. Risk is measured partly by the industry they are in and partly by their own experience, *i.e.* their claim costs. Rate models are used across Canada but each one is a little different. For example, rate models differ in how much weight they give to industry experience *vs.* individual experience, how much an employer's rate can change every year, how far up or down an employer's rate can move, and which costs are used to calculate their experience.

Why is WCB introducing a new model?

It is good practice to review the system periodically to ensure it is working as intended. The current model was introduced in 2001 and WCB had recently become aware of some issues in connection with it. For example, some employers had concerns about the model's fairness, the volatility of their rates, and their protection from extreme rate swings due to a single high cost claim. In addition, labour stakeholders expressed concern that the rate model provides a financial incentive for employers to suppress claims and encourage injured workers to return to work before they are ready. In 2013 the Manitoba government released the *Fair Compensation Review* which recommended that WCB review the rate model, and this was soon followed by *Manitoba's Five Year Workplace Injury and Illness Prevention Plan* which also asked the WCB to review the rate model with a view to restoring balance to the rate-setting structure.

WCB launched a comprehensive review in early 2014. The review recommended changes to the way assessment rates are set. These changes are significant enough that they amount to a new rate model.

How did WCB develop the new model?

WCB hired the actuarial firm of Morneau Shepell to conduct the comprehensive review. Morneau Shepell has experience reviewing and developing rate models in other Canadian jurisdictions.

WCB established a stakeholder advisory group representing both employers and labour. This group was instrumental in guiding the review and vetting the recommendations. Working with Morneau Shepell, Mr. Doug Stanley, former CEO of WorkSafe New Brunswick, conducted a stakeholder consultation that uncovered concerns from both labour and employers. The resulting consultation report documented these concerns and made a number of recommendations. The report is available on the WCB website.

The actuaries from Morneau Shepell then worked with WCB to create and test various ways to implement the recommendations. Once these had been narrowed down to a set of core changes, they were vetted by the stakeholder advisory group and then reviewed and approved by the Board of Directors in June 2015. At the same time, the Board of Directors approved a transition plan to implement the new rate model over a five-year period.

What's different about the new model?

A new feature called the *experience factor* will mean that individual cost experience will impact large employers' premiums more than small or medium employers.

The current model treats every employer the same, regardless of size. Whether they employ five workers or 5,000 workers, their experience carries exactly the same weight. In contrast, the new rate model will treat employers differently depending on their size. Employers' experience will be given different weights, depending on whether they are small, medium or large. A large employer's individual cost experience will have a greater impact on the premiums they pay, whereas for small and medium employers, the industry they are in will have a greater impact than their own experience.

Risk category ranges will be reduced, so that there will be a smaller range of potential rates above and below the category average, especially for small and medium employers.

The employer's size will also affect how much their rates will be able to move up or down. The industry's risk category controls the minimum and maximum rates that an employer can pay. Under the current model, the range between the risk category upper and lower boundaries is the same regardless of employer size, but under the new rate model the size of the range will differ for small, medium and large employers. Large employers' rates will be allowed to move higher and lower than small or medium employers. Small employers' rates will be able to move within a relatively narrow range.

Annual rate change limits will also be reduced, so there will be less rate volatility.

Under the current model, an employer's rate moves upward at an ever increasing pace if they have poor experience. For example, after three years of poor experience their rate increases by 30%, after four years 40%, and after five years 50%. With improving experience, their rate goes down much more slowly. Under the new rate model, annual rate changes will be capped at 15% upward or downward.

The *experience window* will change so that the costs used in rate-setting will be accumulated over three years instead of one, for claims incurred over three years instead of five years.

The term *experience window* refers to the time period during which claim costs are accumulated to calculate an employer's experience. Under the current rate model, the experience window is 12 months of costs for claims incurred in the last five calendar years. Under the new rate model, the experience window will be three calendar years of costs for claims incurred in the last three calendar years.

Risk category changes will be monitored and controlled closely to align with prevention and compliance.

Over the years, industry groups and large employers can move between risk categories as their experience changes. Under the new model, there will be more risk categories and more frequent movement between categories. WCB will establish clear criteria for category movements and will monitor them to ensure that they reflect real changes in the underlying risk.

What are the advantages of the new model?

The new rate model responds to stakeholder concerns in a number of ways.

- Is tailored to the unique needs of small, medium and large employers.
- Provides better protection against large rate increases.
- Reduces rate volatility.
- Provides more collective liability protection especially for small and medium employers.
- Holds employers accountable for the risks of their workplace especially large employers.
- Reduces the financial incentive for claim suppression or inappropriate return to work.
- Creates balance between focusing on injury prevention and focusing on return to work.
- Improves alignment with prevention and compliance.
- Is in the mainstream of Canadian WCB rate models.

Transition from the current model to the new model

Some changes are being made to the current model to respond in a timely way to stakeholders' greatest concerns. Other changes will need to wait until the new rate model is implemented.

What will happen in 2016?

- The annual basic change limit will be capped at 15%.
- The reduction in risk category ranges will begin.
  - For all employers, the category upper boundary will reduce from 200% to 120% above the category average.
  - For small and medium employers, the category lower boundary will rise from 40% to 30% below the category average.
- WCB anticipates that the overall average rate will decrease from $1.30 to $1.25, which will partially offset the impact of raising the lower boundary.

NOTE: Changes to the average rate are set by the Board of Directors annually, taking into account WCB's financial situation.

What will happen in 2017?

- The risk category ranges will again be reduced for small and medium employers, with the lower boundary rising from 30% to 20% below the category average.

What will happen in 2018?

- Most of the features of the new model will be implemented, although further changes will be made in future years.
- For small and medium employers, the risk category ranges will be reduced one last time.
  - For small employers, the upper boundary will reduce from 120% to 40% above the category average and the lower boundary will rise from 20% to 10% below the category average.
  - For medium employers, the upper boundary will reduce from 120% to 60% above the category average.
- The experience factor will be implemented, meaning that for small employers only 20% of their experience will be used to calculate rates. For medium employers, the experience factor will range from 30% to 40%, and for large employers 40% to 100%.
- The prediction index (a feature of the current model that assigns extra points based on injury frequency and claim duration) will be removed.
- WCB anticipates that the overall average rate will decrease from $1.25 to $1.15, which will partially offset the impact of increasing the lower boundary for small employers.

NOTE: Changes to the average rate are set by the Board of Directors annually, taking into account WCB's financial situation.

What will happen in 2019 and 2020?

- The new experience window will be phased in. In 2019, experience will be calculated using two years of costs on four years of claims, and in 2020 three years of costs on three years of claims will be used. Enhanced category change monitoring will be introduced in 2020.
- Also, WCB anticipates that SAFE Work Manitoba will introduce a new Prevention Incentive in 2019. The Prevention Incentive, which will function separately from the rate model, will allow an employer to significantly reduce their cost of funding the system. Details of how the Prevention Incentive will work are still being developed.

How will WCB communicate these changes to employers?

WCB has already started to communicate these changes to key stakeholder groups such as industry associations and will continue to do so throughout the fall of 2015. Individual employers will learn about the changes through their annual rate letters, information brochures and WCB newsletters.

Summary of New Rate Model Features

	Small	**Medium**	**Large**
Payroll Size	Up to $750,000	$750,000 to $7.5 million	Over $7.5 million
Experience Factor	20%	30% - 40%	40% - 100%
Risk Category Range	10% below to 40% above category average	20% below to 60% above category average	40% below to 120% above category average
Annual Change Limit	+ / - 15%	+ / - 15%	+ / - 15%
Experience Window	3 years of costs on 3 years of claims	3 years of costs on 3 years of claims	3 years of costs on 3 years of claims

Examples of Risk Category Ranges

	Small	Medium	Large
Category Average $0.50	$0.45 - $0.65	$0.40 - $0.80	$0.30 - $1.10
Category Average $1.50	$1.35 - $1.95	$1.20 - $2.40	$0.90 - $3.30
Category Average $2.50	$2.25 - $3.25	$2.00 - $4.00	$1.50 - $5.50
Category Average $3.75	$3.38 - $4.88	$3.00 - $6.00	$2.25 - $8.25
Category Average $6.25	$5.63 - $8.13	$5.00 - $10.00	$3.75 - $13.75

New Rate Model Implementation - *Transition Timeline*

2015 Rate Setting — Current Model

Risk Categories
- Bottom of category range is 40% below category average
- Top of category range is 200% above category average
- A total of 9 Risk Categories

Change Limit
- Change limit based on number of years trending up or down

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

Claims Experience
- 1/5 Experience period

Average Rate: $1.30

2016 Rate Setting — Transition begins

Risk Categories
- (T) Increase bottom of category ranges **from 40% to 30% below**
- Decrease top of category ranges **from 200% to 120% above**
- Maintain large accounts in current categories

Change Limit
- (T) Change annual rate change limits as follows:

Year	Decrease	Increase
First	-5%	10%
Second	-10%	15%
Third+	-15%	15%

Claims Experience
- 1/5 Experience period

Average Rate: $1.25

2017 Rate Setting

Risk Categories
- (T) Increase bottom of category ranges from **30% to 20% below**
- Maintain top of category at 120% above
- Allow large employers to organically move to new category

Change Limit
- Change annual rate change limits as follows:

Year	Decrease	Increase
First	-5%	10%
Second	-10%	15%
Third+	-15%	15%

Claims Experience
- 1/5 Experience period

Average Rate: $1.25

2018 Rate Setting — New model begins

Risk Categories
- (N) Introduce category range based on employer size.
  - **Small: -10% to +30%**
  - **Medium: -20% to +60%**
  - **Large: -40 %to +120%**
- (T) Maintain same risk categories

Change Limit
- (N) Limit annual rate changes to **+/- 15%**

Experience Factor
- (N) Experience Factor:
  - **Small: 20%**
  - **Medium: 30-40%**
  - **Large: 40-100%**

Claims Experience
- 1/5 Experience period
- Remove prediction index
- **Calendar year period**

Average Rate: $1.15

2019 Rate Setting — Prevention incentive introduced (TBD)

Risk Categories
- Category range based on employer size.
  - Small: -10% to +30%
  - Medium: -20% to +60%
  - Large: -40 %to +120%
- (T) Introduce new categories and allow industries and accounts to move to new +/- 1 categories

Change Limit
- Limit annual rate changes to +/- 15%

Experience Factor
- Experience Factor:
  - Small: 20%
  - Medium: 30-40%
  - Large: 40-100%

Claims Experience
- (T) **2/4** Experience period

Average Rate: $1.15

2020 Rate Setting — Implementation complete

Risk Categories
- Category range based on employer size.
  - Small: -10% to +30%
  - Medium: -20% to +60%
  - Large: -40 %to +120%
- (N) Enhanced category monitoring

Change Limit
- Limit annual rate changes to +/- 15%

Experience Factor
- Experience Factor:
  - Small: 20%
  - Medium: 30-40%
  - Large: 40-100%

Claims Experience
- (N) **3/3** Experience period
- Changes in risk categories based on new experience period

Average Rate: $1.15

(T) Transition action introduced

(N) New model feature introduced