Section Title: Finance, Assessments and Administration - Accounting and Finance
Subject: Rate-Setting Model for Class E Employers
Effective Date: May 1, 2017

A. POLICY PURPOSE

The Workers Compensation Board (WCB) has the authority under *The Workers Compensation Act* (the *Act*) to assess and collect from employers the revenue required to fund the workers compensation system. Section 73 of the *Act* groups covered employers into five classes for assessment purposes.

The rate-setting model described in this policy is used to calculate assessment rates for Class E employers (employers). These assessment rates are then used to determine the amount that will be collected from each employer in order to fund the costs of the workers compensation system. The purpose of this policy is to define the goals and the framework of the rate-setting model.

GOALS

The rate-setting model balances collective liability and individual liability in order to achieve the following goals:

- Promote and enhance workplace safety and health;
- Promote effective workplace disability management programs;
- Allocate the costs of the compensation system among employers in a fair manner;
- Balance rate stability with rate responsiveness; and
- Maintain the financial integrity of the workers compensation system.

The policy should be read in conjunction with the Administrative Guidelines (Guidelines). The Guidelines provide specifics on how rates are calculated and include a glossary of commonly used terms.

Most employers have their operations assigned to one Industry Classification. Where employers have multiple Industry Classifications, the employer's assessment rate is determined at the Industry Classification level rather than at the employer level.

FRAMEWORK

The rate-setting model calculates the assessment rates for each Class E employer, while ensuring that the total amount of revenue generated by the model meets the revenue target set by the Board of Directors. Employer assessment rates are set annually. A number of factors are considered when setting assessment rates including:

- The weight given to individual experience vs industry experience (Experience Factor);
- The features of the rate-setting model that apply based on employer payroll (Employer Size);
- The amount an employer's rate can change from year to year (Annual Basic Rate Change Limit);

- The amount an employer's rate can go below or above its Risk Category Base Rate (Risk Category Range);
- The costs that are used to calculate an employer's rate (Rate-Setting Claim Costs);
- The industries that are placed together based on claim costs (Risk Category).

The following basic steps are used in determining an employer's assessment rate:

1 - Determine the Start Rate
The Start Rate is the prior year rate unless the Average Assessment Rate has changed. Where the Average Assessment Rate has changed from the previous year, an employer's prior year rate is restated based on the percentage increase/decrease to the Average Assessment Rate; this restated prior year rate is the Start Rate.

2 - Calculate the Rate-Setting Claim Costs in the Experience Period
To calculate Rate-Setting Claim Costs, the employer's Claim Costs Experience (which includes claim costs, proxy costs and transferred costs) that occurred during the Experience Period are included.

3 - Calculate the Experience Rate
The employer's Rate-Setting Claim Costs are compared to the average Rate-Setting Claim Costs of all employers. This cost ratio is then multiplied by the Average Assessment Rate to determine the employer's Experience Rate.

4 - Determine the Employer Size
Employers are placed into one of three groups (small, medium or large) based on their payroll size. Size influences the degree to which an employer's Rate-Setting Claim Costs affect its assessment rate (Experience Factor) and the range of rates an employer may pay (Risk Category Range).

5 - Calculate the Experience Factor
The Experience Factor is a percentage that defines how much of the employer's assessment rate is based on the employer's Rate-Setting Claim Costs and how much is based on its Industry Classification Risk Category's Rate-Setting Claim Costs. The Experience Factor Formula, driven by employer size, is used to determine this factor.

6 - Calculate the Forecast Rate
The Forecast Rate is a calculation that uses the employer's Experience Factor, Experience Rate and Risk Category Base Rate. The Forecast Rate represents the best estimate of the rate required to cover the employer's expected claim costs plus its share of collective and administrative costs for the upcoming year. The Forecast Rate is then constrained by the limits of the rate-setting model as outlined in Steps 7 and 8; which determine how fast and how far an employer's assessment rate may move.

7 - Apply the Annual Basic Rate Change Limit
At this step, the employer's assessment rate is restricted to an increase or decrease of 15% (the Annual Basic Rate Change Limit).

8 - Apply the Risk Category Range
At this step, the employer's assessment rate is restricted to an increase or decrease that falls within the employer's Risk Category Range. This offers the employer a degree of rate predictability since the lowest and highest rates for each Risk Category are known.

9 - Apply the Balancing Adjustment
The rate-setting model must generate a targeted amount of revenue set by the Board of Directors, annually. The initial run of the model with the employer assessment rates arrived at through Steps 1 to 8 may produce a revenue amount that varies from this revenue target. Any variance is converted to a percentage - referred to as the Balancing Adjustment. The Balancing Adjustment is applied to each employer's assessment rate.

NEW EMPLOYERS
New Employers are defined as those with one full calendar year or less of payroll within the Experience Period. These employers are assigned the New Employer Rate for their industry (See Guidelines, Appendix B).

RISK CATEGORY MONITORING MECHANISMS
The WCB determines when a large employer or Industry Classification will move to another Risk Category by monitoring a combination of cost and non-cost criteria (See Guidelines, Appendix C).

WORKPLACE SAFETY AND HEALTH
The rate-setting model is a part of a broader system designed to improve workplace safety and health. To foster and support safer and healthier workplaces, the WCB may fund industry-based safety programs through a levy. The levy may be added to the employer's assessment rate.

OTHER POLICIES
In addition to this policy, a number of other WCB policies (including, but not limited to those listed in the References section) apply when determining a Class E employer's assessment rate. The policies should be read, considered and applied as a whole.

TRANSITION PERIOD (2018-2020)
The policy includes two features (Risk Category and Experience Period) that are phased in during the Transition Period. (See Guidelines, Risk Category, Tables A1 and A2; and Step 1, Tables B1 and B2).

B. <u>REFERENCES</u>

The Workers Compensation Act of Manitoba, Sections 60, 73, 81, 82

WCB Policy 31.05, *Funding Policy*
WCB Policy 31.05.10, *Cost Relief/Cost Transfer - Class E*
WCB Policy 31.05.15, *Cost Transfer - Self Insured*
WCB Policy 31.05.20, *Transfer of Assessment Rates and Claim Costs Experience on Change of Ownership*
WCB Policy 31.10.40, *Recoveries from Third Parties*
WCB Policy 35.10.70, *Coverage for Volunteers*
WCB Policy 35.20.10, *Placement of Employers into Industry Classifications*
WCB Policy 35.40.50, *Overpayment of Benefits*
WCB Policy 44.10.70.50, *Public Interest Emergency Actions*
WCB Policy 44.20.50.20*, Noise-Induced Hearing Loss*
WCB Policy 52.20, *Funding Industry-Based Safety Programs*
WCB Policy 52.40, *Prevention Rebate Program*

History:
1. Policy approved by Board Order 11/17 on April 19, 2017, and effective May 1, 2017. This policy is used to set assessment rates for 2018 and later years and replaces policy 31.05.05, *Rate Setting for the General Body of Employers (Employers in Class E)*. The six core changes to the rate-setting model were (1) the introduction of an experience factor; (2) reduced risk category range; (3) a fixed annual rate change limit; (4) a calendar-based experience period of three years of claim costs on three claim accident years; (5) expanding the number of risk categories from 9 to 18; and (6) enhanced category monitoring.

2. References to various policies updated to reflect revised policy names on October 10, 2018.
3. October 2019 - Reference to policy 31.05, *Funding Policy*, was deleted from the term Average Assessment Rate under Appendix D.
4. Minor formatting changes were made to the policy, October 2020.

C. ADMINISTRATIVE GUIDELINES

Administrative Guidelines to Policy 31.05.05, Rate-Setting Model for Class E Employers

These guidelines detail the steps used to determine assessment rates for employers with more than one full calendar year of payroll within the Experience Period. Appendix B-New Employers details the steps used to determine assessment rates for employers that have one full calendar year or less of payroll.

Prior to calculating assessment rates, a number of specific variables must be determined:

- the Average Assessment Rate;
- the employer's payroll level;
- the employer's previous year assessment rate;
- the employer's Industry Classification;
- the employer's Risk Category; and
- the Risk Category Base Rate.

Most Class E employers have their operations assigned to one Industry Classification. Where employers have multiple Industry Classifications, the value of these variables is determined at the Industry Classification level rather than at the employer level.

Risk Category
All employers are assigned to an Industry Classification based on their operations. Each Industry Classification is assigned to a Risk Category based on claim cost trends over a period of several years. Large employers may be assigned to a Risk Category outside of the Risk Category assigned to their Industry Classification (See Guidelines, Appendix C). The risk categories are set as a percentage of the average assessment rate. The risk categories are as shown in Table A1 (except during the 2018 transition year, when there will be only nine Risk Categories - See Table A2):

Table A1 - Risk Categories
(stated as a % of the Average Assessment Rate)

15%	33%	60%	125%	250%	500%
20%	40%	75%	150%	300%	600%
25%	50%	100%	200%	400%	800%

Table A2 - Risk Categories for the 2018 Transition Period
(stated as a % of Average Assessment Rate)

15%	70%	300%
25%	120%	500%
40%	200%	800%

The Rate-Setting Year is defined as the upcoming calendar year for which the WCB is currently setting assessment rates. For example, in 2017, the WCB will set 2018 assessment rates. The Rate-Setting Year is 2018.

Risk Category Base Rate
A Risk Category Base Rate is calculated by multiplying the applicable Risk Category percentage by the Average Assessment Rate. The Risk Category Base Rate is also the starting point for determining the Risk Category Range of Rates by Employer Size (See Guidelines, Step 8).

Steps to calculate the Assessment Rates of Employers with more than one Full Calendar Year of Payroll in the Experience Period

Step 1 - Determine the Start Rate
The Start Rate is the prior year rate unless the Average Assessment Rate has changed. Where the Average Assessment Rate has changed from the previous year, an employer's prior year rate is restated based on the percentage increase/decrease to the Average Assessment Rate; this restated prior year rate is the Start Rate. The Start Rate is used later in the process at Step 7.

Step 2 - Calculate the Rate-Setting Claim Costs in the Experience Period
The Rate-Setting Claim Costs during the Experience Period must be determined for each employer. The Experience Period has two components: the Rate-Setting Claim Costs paid within the cost payment period and the accident years of the claims on which those costs are paid. For each employer, the actual, proxy and transferred claim costs (Claims Cost Experience) for all of the claims that occurred over the Experience Period are summarized.

The employer's Rate-Setting Claim Costs during the applicable Experience Period are:

- Claims Cost Experience which includes:
    - Claim costs assigned to the individual employer;
    - Proxy costs which may be assigned as a result of an accepted fatality claim; and
    - Claim costs which are transferred to the employer under policy 31.05.10, *Cost Relief/Cost Transfer - Class E*, policy 31.05.15, *Cost Transfer - Self Insured* and policy 31.05.20, *Transfer of Assessment Rates and Claim Costs Experience on Change of Ownership.*

- Less Costs Excluded from Rate Setting as defined in Appendix D of the Administrative Guidelines.

Fatal claims may result in a wide range of costs. Therefore, a proxy cost of $150,000 is assigned to the accident employer’s Rate-Setting Claim Costs instead of the actual cost of the claim. By applying this fixed amount for fatalities, a fatality has a similar outcome in rate-setting as a serious accident.

In some circumstances, the employer of the deceased worker may have a portion of the actual claim costs relieved or transferred under policy 31.05.10, *Cost Relief/Cost Transfer - Class E*. In this circumstance, the proportion of claims costs removed from the accident employer is applied when determining the amount of proxy costs to be assigned to the accident employer's Rate-Setting Claim Costs in the applicable Experience Period.

The Experience Period for the Rate-Setting Year is defined in Table B1 below (except for the 2018 and 2019 transition years which are displayed in Table B2):

Table B1 - Experience Period

Rate-Setting Year	Cost Payment Period	Accident Years
Year_{t}	January 1, Year_{t-4} to December 31, Year_{t-2}	Year_{t-4} to Year_{t-2}

Where "t" represents the rate-setting year. For example, if the rate-setting year is 2020, then the experience period covers costs paid from January 1, 2016 to December 31, 2018 for claims with accident dates from 2016 to 2018.

Table B2 - Experience Period for the 2018 and 2019 Transition Period

Rate-Setting Year	Cost Payment Period	Accident Years
2018	January 1, 2016 to December 31, 2016	2012, 2013, 2014, 2015, 2016
2019	January 1, 2016 to December 31, 2017	2014, 2015, 2016, 2017

Step 3 - Calculate the Experience Rate
An Experience Rate represents what an employer would pay if the rate-setting model was based solely on an employer's Rate-Setting Claim Costs. An employer's Rate-Setting Claim Costs in the Experience Period are compared to the overall average Rate-Setting Claim Costs in the Experience Period. This cost ratio is multiplied by the Average Assessment Rate to determine an employer's Experience Rate.

An employer who has no or minimal Rate-Setting Claim Costs may have an Experience Rate of zero or close to zero. This is a valid result.

Step 4 - Determine Employer Size
An employer's size is used when calculating the employer's Risk Category Range of Rates and the Experience Factor. Employers are placed into one of three groups based on their payroll size:

Table C1 - Employer Size Categories

Employer Size	Assessable Payroll
Small	Less than $750,000
Medium	$750,000 to less than $7,500,000
Large	$7,500,000 or greater

The employer's size is determined by calculating average actual payroll, including assessable payroll and personal coverage amounts, over the three years defined below:

Table C2 - Payroll Reporting Years for the Rate-Setting Year

Rate-Setting Year	Payroll Reporting Years
Year_t	Year_{t-4} to Year_{t-2}

Where "t" represents the rate-setting year. For example, if the rate-setting year is 2020, then the actual payroll reported from 2016 to 2018 determines an employer's size.

If, under Policy 35.20.15, *Associated Employers*, it is determined that two or more employers are associated and tied for rate setting purposes, the payroll for these employers will be combined in the same Industry Classification to determine the employer's payroll size.

On a periodic basis, the WCB will adjust the value of the Assessable Payroll set out in Tables C1, D and E to reflect changes in the provincial industrial average wage as published by Statistics Canada.

Step 5 - Calculate the Experience Factor
The Experience Factor is a percentage that defines how much of the employer's assessment rate is based on the employer's Rate-Setting Claim Costs and how much is based on its Industry Classification Risk Category's Rate-Setting Claim Costs. The Experience Factor Formula, driven by employer size, is used to determine this factor. Table D below displays the Experience Factors by employer size. The Experience Factor for small employers is set at a fixed percentage. Medium and large employers have a range of Experience Factors with minimum and maximum threshold levels.

Table D - Experience Factors by Employer Size

Employer Size	Assessable Payroll	Experience Factors
Small	Less than $750,000	20%
Medium	$750,000 to less than $7,500,000	30% - 40%
Large	$7,500,000 or greater	40% - 100%

Small employers are assigned a 20% Experience Factor which means that 20% of their Forecast Rate comes from their own Rate-Setting Claim Costs while 80% comes from their Risk Category Rate-Setting Claim Costs.

Medium employers are assigned an Experience Factor from 30% to 40%. This means that at least 30% and up to 40% of their Forecast Rate comes from their own Rate-Setting Claim Costs while the remainder comes from their Risk Category Rate-Setting Claim Costs.

Large employers are assigned an Experience Factor from 40% to 100% which means that at least 40% and up to 100% of their Forecast Rate comes from their own Rate-Setting Claim Costs while the remainder comes from their Risk Category Rate-Setting Claim Costs. Employers who have, on average, $50 million or more in annual payroll are assigned an Experience Factor of 100%.
Experience factors for medium and large employers are calculated using the following formula subject to the minimum and maximum Experience Factors set out in Table D.

$$Experience\ factor = \sqrt{\frac{Average\ Actual\ Payroll\ \ (as\ determined\ in\ Step\ 4)}{\$50\ million}}$$

Step 6 - Calculate the Forecast Rate
The employer's Forecast Rate is calculated by using the results of steps 3 and 5 as follows:

(Experience Factor) x (Experience Rate) plus (1- Experience Factor) x (Industry Risk Category Base Rate).

The Forecast Rate is a calculation that uses the employer's Experience Factor, Experience Rate and Risk Category Base Rate. The Forecast Rate represents the best estimate of the rate required to cover the employer's expected claim costs plus its share of collective and administrative costs for the upcoming year. The Forecast Rate is then constrained by the limits of the rate-setting model as outlined in Steps 7 and 8; which determine how fast and how far an employer's assessment rate may move.

Step 7 - Apply the Annual Basic Rate Change Limit
The percentage difference between the employer's Forecast Rate and its Start Rate is calculated. If the change is greater than +/-15%, the Annual Basic Rate Change Limit is applied to limit the Forecast Rate value. This step ensures rate stability, year over year.

Step 8 - Apply the Risk Category Range
The rate calculated in step 7 is compared to the employer's Risk Category Range to determine if the rate falls within or outside of this range.

The Risk Category range of rates restricts how far upwards or downwards an employer's assessment rate can move. It offers an employer a degree of rate predictability since the lowest and highest rates are known. The employer's Risk Category Range of Rates is dictated by the employer's size. Table E below displays the Range of Rates that are available to employers based on their size.

Table E - Risk Category Range of Rates

Employer Size	Assessable Payroll	Range of Rates
Small	Less than $750,000	10% below to 30% above Risk Category Base Rate
Medium	$750,000 to less than $7,500,000	20% below to 60% above Risk Category Base Rate
Large	$7,500,000 or greater	40% below to 120% above Risk Category Base Rate

The Range of Rates is applied to the percentage difference between the employer's rate determined in Step 7 compared to the employer's Start Rate. If the percentage difference is outside the range, the percentage change in the employer's rate will be limited during this Step. For example, if a small employer's rate determined in Step 7 is 15 per cent below the Risk Category Base Rate, the small employer's rate in Step 8 will be limited to a rate that is 10% below the Risk Category Base Rate.

Step 9 - Apply Balancing Adjustment
The rate-setting model must generate a targeted amount of revenue set by the Board of Directors, annually. The initial run of the model may produce a revenue amount that varies from this revenue target. Any variance is converted to a percentage - referred to as the Balancing Adjustment. The Balancing Adjustment is applied to each employer's assessment rate.

Refer to Appendix A for illustrations of Rate-Setting for a small, medium and large employer.

Appendix A: New Rate Model - Example Rate Calculations

The following numerical examples outline basic steps used in determining an employer's assessment rate.

***Example 1:* Small Employer in 200% Risk Category with a three-year average annual payroll of $250,000.**

Average Assessment Rate remains the same as in previous year ($1.10). The WCB has set the Balancing Adjustment at 3%.

Step 1 - Determine the Start Rate
The employer's prior year rate was $2.50. Since there is no change in the Average Assessment Rate, the Start Rate is the same as the prior year one: $2.50

Step 2 - Calculate the Rate-Setting Claim Costs in the Experience Period
The employer has no Rate-Setting Claim Costs ($0).

Step 3 - Calculate an Experience Rate
The overall Average Rate-Setting Claim Costs in the Experience Period is calculated as the sum of the [(Total Rate-Setting Claim Costs per injury year ÷ Total Class E Payroll) x Employer Payroll] for each year in the Experience Period.

The overall Average Rate-Setting Claim Costs are: $[\frac{78,600,000}{18,139,200,000} x 250,000] = \$1,083$[1]

Therefore, the ratio of this employer's Rate-Setting Claim Costs to the expected average is 0.00 ($0 divided by $1,083). This ratio is then multiplied by the Average Assessment Rate to get the employer's Experience Rate.

Experience Rate = 0.00 x $1.10 = $0.00

Step 4 - Determine Employer's Size
The employer's average actual payroll for the last three years was 250,000; therefore, the employer size is small.

Step 5 - Calculate an Experience Factor
Since this is a small employer, the Experience Factor is set at 20%.

Step 6 - Calculate a Forecast Rate
The employer's Forecast Rate is calculated by:
(Experience Factor) x (Experience Rate) plus (1- Experience Factor) x (Risk Category Base Rate).

Forecast Rate = (20% x $0.00) + [(1 - 20%) x (200% x $1.10)] = $1.76

Step 7 - Apply the Annual Basic Rate Change Limit
Since the employer’s Forecast Rate ($1.76) is lower than the Start Rate ($2.50), the employer will move towards its Forecast Rate at a maximum 15% per year. Using the Start Rate of $2.50 and considering the Annual Basic Rate Change Limit of 15%, the lowest the employer's rate can be set at this point is $2.13 [($2.50 x (1 - 15%)) = $2.13]. Since the Forecast Rate of $1.76 is less than $2.13, the rate is set to $2.13.

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[1] The actual calculation for this step is more complex in practice, however this is the general form of the calculation that is used.

Step 8 - Apply the Risk Category Range
The employer's Risk Category is 200%. Since the employer is a small employer, the Risk Category Range is 10% below to 30% above the Risk Category Base Rate. The Risk Category Base Rate is calculated by multiplying the Risk Category (200%) by the Average Assessment Rate ($1.10). Using this Base Rate, the lower and upper boundaries are calculated as:

Lower Boundary = (1 - 10%) x (200% x $1.10) = $1.98

Upper Boundary = (1 + 30%) x (200% x $1.10) = $2.86

The rate of $2.13 calculated in Step 7 is within the available range of $1.98 to $2.86.

Step 9 - Apply Balancing Adjustment
For this example, the Balancing Adjustment is +3%. The employer's rate is calculated by adding the Balancing Adjustment to the rate calculated in step 8.

Rate = $2.13 x (1 + 3%) = **<u>$2.19</u>**

<u>***Example 2:*** **Medium Employer in 300% Risk Category with a three-year average annual payroll of $5,000,000.**</u>

Average Assessment Rate drops from $1.10 to $1.00. The WCB has set the Balancing Adjustment at -2%.

Step 1 - Determine the Start Rate
The employer's prior year rate was $4.00. Since the Average Assessment Rate has dropped, the prior year rate needs to be restated to determine the Start Rate. The Start Rate is $3.64 [$4.00 x ($1.00/$1.10)].

Step 2 - Calculate the Rate-Setting Claim Costs in the Experience Period
The employer has $175,000 of Rate-Setting Claim Costs.

Step 3 - Calculate an Experience Rate
The overall Average Rate-Setting Claim Costs in the Experience Period is calculated as the sum of the [(Total Rate-Setting Claim Costs per injury year ÷ Total Class E Payroll) x Employer Payroll] for each year in the Experience Period.

The overall Average Rate-Setting Claim Costs are $[\frac{78{,}600{,}000}{18{,}139{,}200{,}000} x 5{,}000{,}000] = \$21{,}666$[2]

Therefore, the ratio of this employer's Rate-Setting Claim Costs to the expected average is 8.08 ($175,000 divided by $21,666). This ratio is then multiplied by the Average Assessment Rate to get the employer's Experience Rate.

Experience Rate = 8.08 x $1.00 = $8.08

Step 4 - Determine an Employer's Size
The employer's average actual payroll for the last three years was 5,000,000; therefore, the size is medium.

[2] The actual calculation for this step is more complex in practice, however this is the general form of the calculation that is used.

Step 5 - Calculate an Experience Factor
Using the employer's average actual payroll for the last three years of 5,000,000 the experience factor is calculated:

Experience Factor = $\sqrt{5{,}000{,}000/50{,}000{,}000}$ = 32%

Step 6 - Calculate a Forecast Rate

The employer's Forecast Rate is calculated by:

(Experience Factor) x (Experience Rate) plus (1- Experience Factor) x (Risk Category Base Rate).

Forecast Rate = (32% x 8.08) + [(1 - 32%) x (300% x $1.00)] = $4.62

Step 7 - Apply the Annual Basic Rate Change Limit
Since the employer's Forecast Rate ($4.62) is higher than the Start Rate ($3.64), the employer will move towards its Forecast Rate at a maximum 15% per year. Using the Start Rate of $3.64 and considering the Annual Basic Rate Change Limit of 15%, the highest the employer's rate can be set at this point is $4.19 [$3.64 x (1 + 15%)= $4.19]. Since the Forecast Rate $4.62 is higher than $4.19 the rate is set at $4.19.

Step 8 - Apply the Risk Category Range
The employer's Risk Category is 300%. Since the employer is a medium employer, the Risk Category Range is 20% below to 60% above the Risk Category Base Rate. The Risk Category Base Rate is calculated by multiplying the Risk Category (300%) by the Average Assessment Rate ($1.00). Using this Base Rate, the lower and upper boundaries are calculated as:

Lower Boundary = (1 - 20%) x (300% x $1.00) = $2.40
Upper Boundary = (1 + 60%) x (300% x $1.00) = $4.80

The rate of $4.19 calculated in Step 7 is within the available range of $2.40 to $4.80.

Step 9 - Apply Balancing Adjustment
For this example, the Balancing Adjustment is -2%. The employer's rate is calculated by adding the Balancing Adjustment to the rate calculated in step 8.

Rate = $4.19 x (1 - 2%) = **$4.11**

***Example 3:* Large Employer in 200% Risk Category with a three year average annual payroll of $25,000,000.**

Average Assessment Rate drops from $1.10 to $1.00. The WCB has set the Balancing Adjustment at +1%.

Step 1 - Determine the Start Rate
The employer's prior year rate was $1.50. Since the Average Assessment Rate has dropped, the prior year rate needs to be restated to determine the Start Rate. The Start Rate is $1.36 [$1.50 x ($1.00/$1.10)].

Step 2 - Calculate the Rate-Setting Claim Costs in the Experience Period
The employer has $50,000 of Rate-Setting Claim Costs.

Step 3 - Calculate an Experience Rate
The overall Average Rate-Setting Costs in the Experience Period is calculated as the sum of the [(Total Rate-Setting Claim Costs per injury year ÷ Total Class E Payroll) x Employer Payroll] for each year in the Experience Period.

The overall Average Rate-Setting Claim Costs are $[\frac{78,600,000}{18,139,200,000} x 25,000,000] = \$113,322$[3]

Therefore, the ratio of this employer's Rate-Setting Claim Costs to the expected average is 0.44 ($50,000 divided by $113,322). This ratio is then multiplied by the Average Assessment Rate to get the employer's Experience Rate.

Experience Rate = 0.44 x $1.00 = $0.44

Step 4 - Determine an Employer's Size
The employer's average actual payroll for the last three years was 25,000,000; therefore, the size is large.

Step 5 - Calculate an Experience Factor
Using the employer's average actual payroll for the last three years of 25,000,000 the Experience Factor is calculated:

Experience Factor = $\sqrt{25,000,000/50,000,000}$ = 71%

Step 6 - Calculate a Forecast Rate
The employer's Forecast Rate is calculated by:
(Experience Factor) x (Experience Rate) plus (1- Experience Factor) x (Risk Category Base Rate).

Forecast Rate = (71% x 0.44) + [(1 - 71%) x (200% x $1.00)] = $0.89

Step 7 - Apply the Annual Basic Change Limit
Since the employer’s Forecast Rate ($0.89) is less than the Start Rate ($1.36), the employer will move towards its Forecast Rate at a maximum 15% per year. Using the Start Rate of $1.36 and considering the Annual Basic Rate Change Limit of 15%, the lowest the employer's rate can be set at this point is $1.16 [$1.36 x (1 - 15%)]= $1.16. Since the Forecast Rate of $0.89 is lower than $1.16 the rate is set at $1.16.

[3] The actual calculation for this step is more complex in practice, however this is the general form of the calculation that is used.

Step 8 - Apply the Risk Category Range
The employer's Risk Category is 200%. Since the employer is a large employer, the Risk Category Range is 40% below to 120% above the Risk Category Base Rate. The Risk Category Base Rate is calculated by multiplying the Risk Category (200%) by the Average Assessment Rate ($1.00). Using this Base Rate, the lower and upper boundaries are calculated as:

Lower Boundary = (1 - 40%) x (200% x $1.00) = $1.20
Upper Boundary = (1 + 120%) x (200% x $1.00) = $4.40

The rate of $1.16 calculated in Step 7 in is outside the available range of $1.20 to $4.40. Therefore the rate will be set at the lower boundary of $1.20.

Step 9 - Apply Balancing Adjustment
For this example, the Balancing Adjustment is +1%. The employer's rate is calculated by adding the Balancing Adjustment to the rate calculated in step 8.

Rate = $1.20 x (1 +1%) = **<u>$1.21</u>**

Appendix B - New Employers

This appendix sets out the steps used to determine assessment rates for employers with one full calendar year or less of payroll within the Experience Period. These employers, called New Employers, are assigned the New Employer Rate. An employer may be treated as a New Employer for up to three years.

Prior to calculating assessment rates for a New Employer, a number of specific variables must be determined:

- the New Employer's Industry Classification;
- the New Employer's Risk Category; and.
- the Risk Category Base Rate.

Most New Employers have their operations assigned to one Industry Classification. Where a New Employer has multiple Industry Classifications, the value of these variables will be determined at the Industry Classification level rather than at the employer level.

Industry Classification
When a New Employer registers with the WCB, the New Employer is assigned to an Industry Classification based on their operations.

Risk Category
All employers are assigned to an Industry Classification based on their operations. Each Industry Classification is assigned to a Risk Category based on claim cost trends over a period of several years. The Risk Categories are set as a percentage of the Average Assessment Rate. The Risk Categories are set as a percentage of the average assessment rate. The risk categories are as shown in Table A1 (except during the 2018 transition year, where there will be only nine Risk Categories - See Table A2):

Table A1 - Risk Categories
(stated as a % of the Average Assessment Rate)

15%	33%	60%	125%	250%	500%
20%	40%	75%	150%	300%	600%
25%	50%	100%	200%	400%	800%

Table A2 - Risk Categories for the 2018 Transition Period
(stated as a % of Average Assessment Rate)

15%	70%	300%
25%	120%	500%
40%	200%	800%

The Rate-Setting Year is defined as the upcoming calendar year for which the WCB is currently setting assessment rates. For example, in 2017, the WCB will set 2018 assessment rates. The Rate-Setting Year is 2018.

Step 1 - Determine the Start Rate
The New Employer's Start Rate is either the rate given during registration or, if the New Employer has a prior year rate, their prior year rate. Where the Average Assessment Rate has

changed from the previous year, a New Employer's prior year rate or the rate given during registration is restated based on the percentage increase/decrease to the average rate; this restated prior year rate is the Start Rate.

Step 2 – Calculate Risk Category Base Rate
A Risk Category base rate is calculated by multiplying the applicable Risk Category percentage by the Average Assessment Rate.

Step 3 - Apply the Annual Basic Rate Change Limit
The percentage difference between the employer's Category Base Rate and its Start Rate is calculated. If the change is greater than +/-15%, the Annual Basic Rate Change Limit is applied to limit the New Employer's rate value. This step ensures rate stability, year over year.

Step 4 - Apply the Balancing Adjustment
The rate-setting model must generate a targeted amount of revenue set by the Board of Directors, annually. The initial run of the model may produce a revenue amount that varies from this revenue target. Any variance is converted to a percentage - referred to as the Balancing Adjustment. The Balancing Adjustment is applied to each employer's assessment rate.

Appendix C - Criteria for Risk Category Movement

This appendix sets out the criteria used to determine whether a large employer or Industry Classification should be moved to another Risk Category. The framework for Risk Category movement applies to the risk categories set out in Table A1 of the Administrative Guidelines to this policy.

Large Employers

Annually, Forecast Rates of large employers are monitored to determine proper Risk Category placement. A large employer may be moved to a Risk Category different from its Industry Classification if certain criteria are met.

If the large employer's Forecast Rate is below or above the next adjacent Risk Category Base Rate for four consecutive years, the employer may be eligible to move to that Risk Category. SAFE Work Manitoba Certified employers may be eligible to move down a Risk Category in three years if their Forecast Rate is below the next adjacent Risk Category Base Rate.

Where a large employer has cost experience lower than its industry's cost experience, the WCB will contact the employer to advise them that continued positive experience could result in the employer being moved to a lower Risk Category. Before any large employer is moved to a lower Risk Category, the WCB will ensure that the employer can demonstrate good practices in safety and health, claim reporting and return to work, and that there are no outstanding issues of non-compliance.

Where a large employer has cost experience higher than its industry's cost experience, the WCB will contact the employer to advise them that continued poor experience could result in the employer being moved to a higher Risk Category. An employer in this situation may be referred to SAFE Work Manitoba or to its industry-based safety program for support in workplace injury prevention, or to the WCB's *Return to Work Program Services* for support with return to work.

Large employers are limited to one Risk Category move every two years. A large employer is further restricted to moving no greater than 6 Risk Categories away from its Industry Classification Risk Category. The table below displays the maximum number of risk categories a large employer can move away from its Industry Classification Risk Category.

Maximum Number of Risk Category Moves by Payroll Threshold Cohort

Payroll Threshold Cohort	Maximum Number of Risk Category Moves from the Industry Classification Risk Category
Greater than or equal to $7,500,000 but less than $8,500,000	1
Greater than or equal to $8,500,000 but less than $13,000,000	2
Greater than or equal to $13,000,000 but less than $18,500,000	3
Greater than or equal to $18,500,000 but less than $22,500,000	4
Greater than or equal to $22,500,000 but less than $28,500,000	5
Greater than or equal to $28,500,000	6

On a periodic basis, the WCB will adjust the payroll threshold cohorts set out in the above table to reflect changes in the provincial industrial average wage as published by Statistics Canada.

Industry Classification

Small and medium employers are not eligible to move outside their Industry Classification Risk Category. However, over time, Industry Classifications may change risk categories as a result of changing cost experience of the Industry Classification. Annually, the WCB monitors Industry Classification Experience Rates to determine proper Risk Category placement. Industry Classifications are limited to one Risk Category move every two years.

When an Industry Classification changes Risk Category, all employers, including large employers, in that Industry Classification are similarly affected. When an Industry Classification is moved to a new Risk Category, the large employers maintain their position relative to the Industry Classification Risk Category. For example, if a large employer is one Risk Category above its Industry Classification Risk Category, the large employer also moves down a Risk Category when the Industry Classification moves down a Risk Category.

An Industry Classification may be moved to a different Risk Category if certain criteria are met.

- If an Industry Classification Forecast Rate is below or above the base rate of the next adjacent Risk Category for four consecutive years, the Industry Classification may be eligible to move to that Risk Category.
- The time period for moving to a lower Risk Category will be reduced to three consecutive years, if the Industry Classification has:
    - an industry-based safety program with 50% or more of the relevant payroll that is SAFE Work Certified; and
    - a Forecast Rate that is below the base rate of the next adjacent Risk Category for three consecutive years.

Exceptional Circumstances

The WCB has the discretion to waive the Risk Category movement criteria in exceptional circumstances. In these cases, the WCB would recommend the appropriate action to the Board of Directors for approval.

Appendix D - Glossary of Terms

Most Class E employers have their operations assigned to one Industry Classification. Where employers have multiple Industry Classifications, these definitions would refer to each Industry Classification for that employer.

1. **Annual Basic Rate Change Limit**: The maximum year-over-year rate change amount. This annual rate limit is set at +/- 15%.
2. **Average Assessment Rate**: The Board of Director sets the Class E average assessment rate for the Rate-Setting Year. The average assessment rate is derived by dividing the projected revenue requirement by the projected payroll for all Class E employers and multiplying the result by 100.
3. **Balancing Adjustment:** The percentage used to adjust each employer's assessment rate to ensure that the rate-setting model generates the necessary revenue to meet the revenue target set by the Board of Directors (See Guidelines, Step 9).
4. **Claim Costs Experience:** For the applicable Experience Period, the employer's Claim Costs Experience includes:
    - Claim costs assigned to the individual employer;
    - Proxy costs which may be assigned as a result of an accepted fatality claim; and
    - Claim costs which are transferred to the employer under policy 31.05.10, *Cost Relief/Cost Transfer - Class E*, policy 31.05.15, *Cost Transfer - Self Insured* and policy 31.05.20, *Transfer of Assessment Rates and Claim Costs Experience on Change of Ownership.*
5. **Costs Excluded from Rate Setting:** The Costs Excluded from Rate Setting for an employer are as follows:
    - the costs incurred for claims with accident years outside the experience period;
    - ineligible (disallowed) claims;
    - translation or interpretation services;
    - courier or mail delivery expenses;
    - compliance investigative (surveillance) costs;
    - WCB medical advisor fees;
    - group life insurance benefits;
    - medical review panel expenses;
    - external legal counsel fees or expenses;
    - wages paid for the day of the accident; and
    - claim costs relieved or transferred as provided for in policy 31.05.10, *Cost Relief/Cost Transfer - Class E*, policy 35.40.50, *Overpayment of Benefits*, and policy 44.20.50.20, *Noise-Induced Hearing Loss*.
6. **Experience Factor**: The factor is a percentage that defines how much of the employer's assessment rate is based on the employer's Rate-Setting Claim Costs and how much is based on its Risk Category Rate-Setting Claim Costs (See Guidelines, Step 5).
7. **Experience Factor Formula**: The formula used to determine the Experience Factor for medium and large employers (See Guidelines, Step 5).
8. **Experience Period**: The time period and claim accident years that will be included to determine Rate-Setting Claim Costs (See Guidelines, Step 2).
9. **Experience Rate**: The assessment rate an employer would pay based solely on its Rate-Setting Claim Costs (See Guidelines, Step 3).
10. **Employer Size:** The employer's size (small, medium or large) is determined by its actual average payroll level over a three-year period (See Guidelines, Step 4).
11. **Forecast Rate**: This rate is a blend of an employer's Experience Rate and Industry Classification Risk Category Base Rate using the employer's Experience Factor. It represents the best estimate of the rate required to cover the employer's expected claim costs along with its share of collective and administrative costs, for the upcoming year (See Guidelines, Step 6).

12. **Industry Classification**: All employers are classified into an Industry Classification based on the nature of the industry in which the employer operates. This creates a grouping of like employers.
13. **Industry Classification Experience Rate**: The assessment rate that is derived from the industry's Rate-Setting Claim Costs which is used to calculate the Industry Classification Forecast Rate.
14. **Industry Classification Forecast Rate**: This rate is a blend of the Industry Classification's Experience Rate and Risk Category Base Rate using the Industry Classification's Experience Factor. This rate is used to determine the proper Risk Category placement.
15. **Industry Classification Risk Category**: This is the Risk Category an Industry Classification is assigned to.
16. **New Employer:** An employer who has one full calendar year or less of payroll within the Experience Period. An employer may be a New Employer for up to three years, depending on when it achieves the full calendar year of payroll in the Experience Period (See Guidelines-Appendix A).
17. **New Employer Rate**: The assessment rate charged to a New Employer (See Guidelines-Appendix B).
18. **Rate-Setting Claim Costs:** The Claim Costs Experience for claims in the Experience Period less the Costs Excluded from Rate Setting.
19. **Rate-Setting Year**: The Rate-Setting Year is defined as the upcoming calendar year for which the WCB is currently setting assessment rates. For example, in 2017 the WCB set 2018 assessment rates. The Rate-Setting Year is 2018.
20. **Risk Category**: A category based on a percentage of the Average Assessment Rate. Each Industry Classification is placed into a Risk Category based on its claim cost trends over a period of several years (See Guidelines, Risk Category). Certain Large Employers can be placed in a different Risk Category than their Industry Classification Risk Category (See Appendix C, Criteria for Risk Category Movement).
21. **Risk Category Base Rate**: The starting point for determining the Risk Category Range, based on a percentage of the average assessment rate. For example, if the average assessment rate is $1.00 and the Risk Category is 200%, the Risk Category Base Rate is 200% of $1.00 or $2.00.
22. **Risk Category Range**: The range of possible assessment rates than an employer can pay. These ranges vary by employer payroll size (small, medium, large). (See Guidelines, Step 8).
23. **Start Rate**: The rate used to begin the employer's assessment rate calculation for the Rate-Setting Year (See Guidelines, Step 1 and Step 7).