

Rate Framework Modernization

January 2017

What is Rate Framework Modernization?

- The Rate Framework Modernization initiative is a multi-year engagement with experts & stakeholders to address identified challenges with the current processes related to employer classification, rate setting and current experience programs.
- One of the key concerns with the current approach to employer classification and setting premium rates is that it does not accurately reflect the risk brought forward by individual employers.
- The new Rate Framework addresses the challenges and concerns brought forward with the existing approaches to setting rates by:
 - Considering what employers have actually been paying to support gradual transition
 - Embedding stability measures to limit the exposure and premium rate volatility
 - Recognizing that individual employers within an industry bring different risk given investments in Occupational Health and Safety (OHS) to protect and support their workers
 - Eliminating two year wait for employer rate adjustments based on actual risk, impacting cash flow and investment in their operations, including OHS programs and initiatives.
 - Providing a rate setting approach that can be easily understood by all stakeholders

Recent Highlights – Next Steps

Preliminary Rate Framework (March to October 2015)

- WSIB launches of the Rate Framework Modernization consultation in March 2015.
- Held technical sessions and over 100 working group sessions with individual employers, employer associations and representatives, injured workers and labour groups.
- Over 50+ stakeholder submissions were received within the consultation that ended in October 2015.

Updated Rate Framework (December 2015 – March 2016)

- On December 1, 2015, the WSIB provided an overview on the updated Rate Framework to approximately 160 stakeholders, based on a number of suggestions and recommendations made by stakeholders through stakeholder working group sessions and formal submissions received.
- The WSIB opened a subsequent consultation period that closed at the end of March 2016.
- Following the release of the updated Rate Framework, the WSIB posted premium rate information for each of the proposed 34 industry classes, in addition to the Rate Group & Risk Disparity analysis that provides greater detail on rate implications and classification structure.

What's Next (April 2016 – January 2019)

- On November 14, 2016, the WSIB's Board of Directors approved the Rate Framework.
- Starting in 2017, the WSIB will undertake further education and outreach efforts, including further discussion on the promotion of occupational health and safety, to ensure a broader understanding of the new approach.
- The WSIB will share annual employer level rates (e.g. shadow rates) for informational purposes moving towards implementation of the Rate Framework, targeted for January 2019, at the earliest.

Revenue Neutrality as a Foundation

- The Rate Framework aims to address fundamental issues raised by stakeholders, partners and the WSIB itself, with the current employer classification structure and premium rate setting processes.
- The adoption of a new classification structure and prospective Risk Adjusted Premium Rate process would not affect the total amount of premium dollars collected by the WSIB, thereby remaining revenue neutral.
- However, the Rate Framework will, in a reasonable and gradual manner, shift the distribution of premiums among individual employers based on their claims experience, while ensuring that employers are paying their fair share of workplace coverage.

Key Goals

Clear and Consistent

A new streamlined and simpler classification structure that is clear and consistent in its application as a foundation.

Fairly Allocated Premiums

An approach that ensures a fair premium for workplace coverage, based on each employer's risk and claims experience to ensure occupational health and safety is top of mind for employers as it relates to their premiums.

Balanced Rate Responsiveness

A reasonable consideration for premium rate stability, while also ensuring responsiveness to risk and claims experience attained through occupational health and safety efforts to reduce workplace injuries and return workers to productive work.

Transparent and Understandable

A Rate Framework that stakeholders can easily understand, and promotes active and informed participation.

Collective Liability

A risk sharing arrangement exists among employers who collectively pay premiums to maintain the insurance fund.

Ease of Administration

Efficient and effective for the employer community and for the WSIB to administer and maintain.

Rate Framework: Three Step Approach

Objective: Transparent, consistent, adaptable and responsive classification structure with fewer and larger groups for rate setting purposes, generally based on predominant business activity.

Risk Adjusted
Premium Rate
Setting

**STEP 1:
Employer
Classification**

**STEP 2:
Class/Subclass
Level Premium
Rate Setting**

**STEP 3:
Employer Level
Premium Rate
Adjustments**

Objective: A Class/Subclass *Projected* Premium Rate that reflects the collective experience of all employers within each class/subclass, setting the stage for a significant range of potential premium rates at the employer level in Step 3.

Objective: One prospective rate setting approach for all employers, acting as an early warning for employers with premium rate implications, supporting their efforts aimed at improving health and safety outcomes.

Step 1 – Employer Classification



Objective: Transparent, consistent, adaptable and responsive classification structure with fewer and larger groups for premium rate setting purposes, generally based on predominant business activity.

North American Industry Classification System

- The Rate Framework replaces the existing classification system (based on the Standard Industrial Classification (SIC) coding) with a new industrial coding system, the North American Industrial Classification System (NAICS).
- The NAICS is a hierarchical industry classification system developed by the statistical agencies of Canada, Mexico and the United States. It replaced the SIC system in 1997, and is refreshed every five years to reflect the changing landscape of the North American economy.
- The current version of NAICS was updated in 2012, with any revisions being contemplated in an expected 2017 version.
- The majority of employers currently have a single NAICS number, and some may have multiple NAICS numbers. For filing with the Canada Revenue Agency, a singular NAICS number is identified for their entire operation.

NAICS Hierarchy

Industry sectors (two-digit codes)

Industry subsectors (three-digit codes)

Industry groups (four-digit codes)

Industries (five-digit codes)

Canadian industries (six-digit codes)

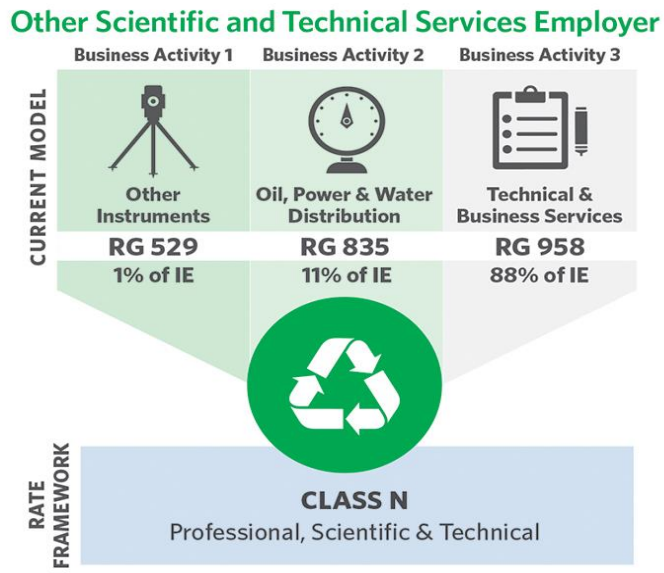
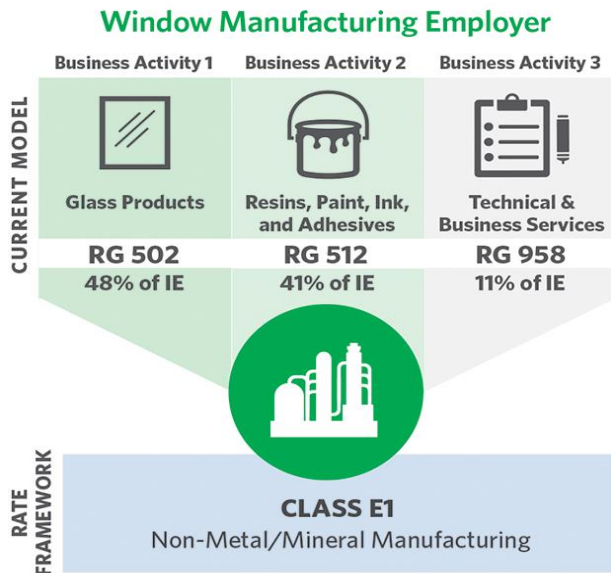
New Classification Structure

- The Rate Framework includes a 34 class/subclass structure (as shown on the right) that correspond to the NAICS structure.
- The number of classes and subclasses has been determined by looking at the actuarial predictability and risk disparity.
- The original proposal stated with 22 industry classes. Further to engagement with stakeholders, adjustments were made to ensure that the WSIB was grouping together industries with similar occupational risks and claims experience.
- As a result, the WSIB expanded the number of from 22 to 34 classes/subclasses.

CLASS A – AGRICULTURE	11
CLASS B – MINING, QUARRYING AND OIL AND GAS EXTRACTION	21
CLASS C – UTILITIES	22
CLASS D – GOVERNMENTAL AND RELATED SERVICES	
SUBCLASS 1 – Educational services	61
SUBCLASS 2 – Public administration	91
SUBCLASS 3 – Hospitals	622
CLASS E – MANUFACTURING	
SUBCLASS 1 – Food, textiles and related manufacturing	31
SUBCLASS 2 – Non-metallic and mineral manufacturing	321-322-326-327
SUBCLASS 3 – Printing, petroleum and chemical manufacturing	323-324-325
SUBCLASS 4 – Metal transportation equipment and furniture manufacturing	331-322-336-337
SUBCLASS 5 – Machinery, electrical equipment and miscellaneous manufacturing	333-335-339
SUBCLASS 6 – Computer and electronic manufacturing	334
CLASS F – TRANSPORTATION AND WAREHOUSING	
SUBCLASS 1 – Rail, water, truck transportation and public postal service	482-483-484-491
SUBCLASS 2 – Air, transit, ground passenger, recreational and pipeline transportation, courier services and warehousing	481-485-486-487-488-492-493
CLASS G – CONSTRUCTION	
SUBCLASS 1 – Building construction	236
SUBCLASS 2 – Infrastructure construction	237
SUBCLASS 3 – Foundation, structure and building exterior construction	2381
SUBCLASS 4 – Building equipment construction	2382
SUBCLASS 5 – Specialty trades construction	2383-2389
CLASS H – WHOLESALE	
SUBCLASS 1 – Petroleum, food, motor vehicle and miscellaneous wholesale	411-412-413-415-418
SUBCLASS 2 – Personal and household goods, building materials and machinery wholesale	414-416-417-419
CLASS I – RETAIL	
SUBCLASS 1 – Motor vehicles, building materials and food and beverage retail	441-444-445-447
SUBCLASS 2 – Furniture, home furnishings, clothing and clothing accessories retail	442-448
SUBCLASS 3 – Electronics, appliances, health and personal care retail	443-446
SUBCLASS 4 – Specialized retail and department stores	45
CLASS J – INFORMATION AND CULTURE	
CLASS K – FINANCE, MANAGEMENT AND LEASING	
CLASS L – PROFESSIONAL, SCIENTIFIC AND TECHNICAL	
CLASS M – ADMINISTRATION, SERVICES TO BUILDINGS, DWELLINGS AND OPEN SPACES	
CLASS N – NON-HOSPITAL HEALTH CARE AND SOCIAL ASSISTANCE	
SUBCLASS 1 – Ambulatory health care	621
SUBCLASS 2 – Nursing and residential care facilities	623
SUBCLASS 3 – Social assistance	624
CLASS O – LEISURE AND HOSPITALITY	
CLASS P – OTHER SERVICES INDUSTRIES	
81	

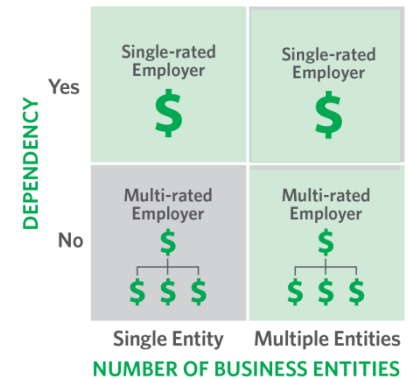
Predominant Business Activity

- Generally, employers with more than one business activity be classified according to their predominant class.
- The WSIB defines “predominant class” as the class that represents the largest percentage of the employer’s annual insurable earnings. For the majority of employers, all of their business activities will fall into one singular industry class.



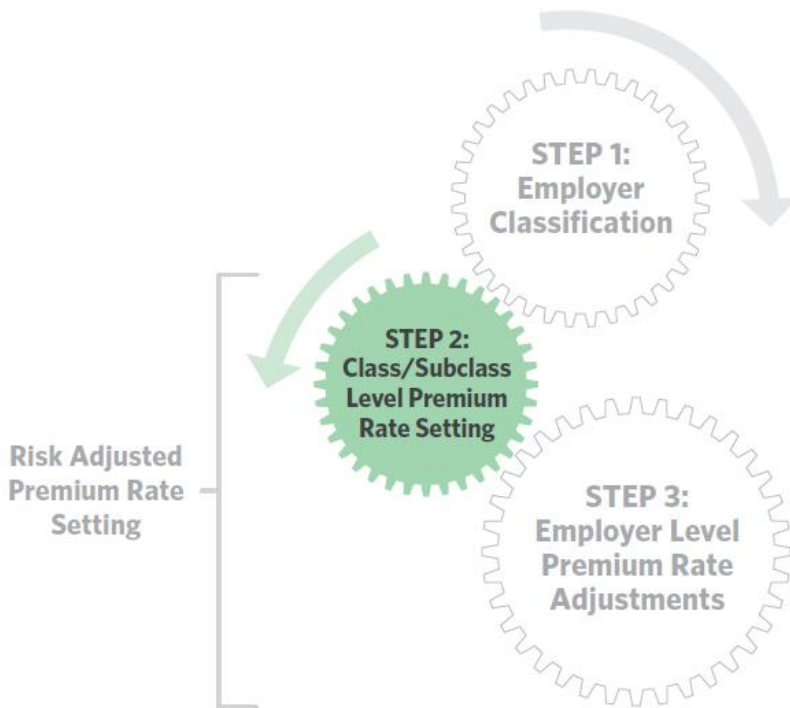
Employers with Multiple Business Activities

- The WSIB recognizes the need for some form of multi-rating for certain employers meeting certain conditions. Further to analysis undertaken by the WSIB and engagement with other jurisdictions on similar practices the WSIB has determined that it will allow employers to have multiple rates by demonstrating that they meet the identified requirements.



- 1. The employer must properly segregate payroll for the business activity.** As is the case today, all employers must report their insurable earnings by business activity, regardless of whether they will have their premium rate calculated together for the whole of their operations or for each business activity separately.
 - 2. The business activity must not form an “integrated operation” with the employer’s other business activity or activities.** An employer can have two or more business activities that together form an “integrated operation” and at the same time one or more other business activities that do not meet the “integrated operation” criteria.
 - 3. The business activity must be significant enough (a sufficient share of payroll).** With respect to determining if the business activity is of sufficient “size” to be assessed separately, an exact number (either as a % of total assessable payroll or a threshold amount of insurable earnings) would need to be identified.
- The same criteria would be used to determine when Associated employers (where control is exercised between legal entities and would form an “integrated operation” if they were performed by a single employer) will be considered a single employer for classification and premium rate setting.

Step 2 – Class/SubClass Level Premium Rate Setting



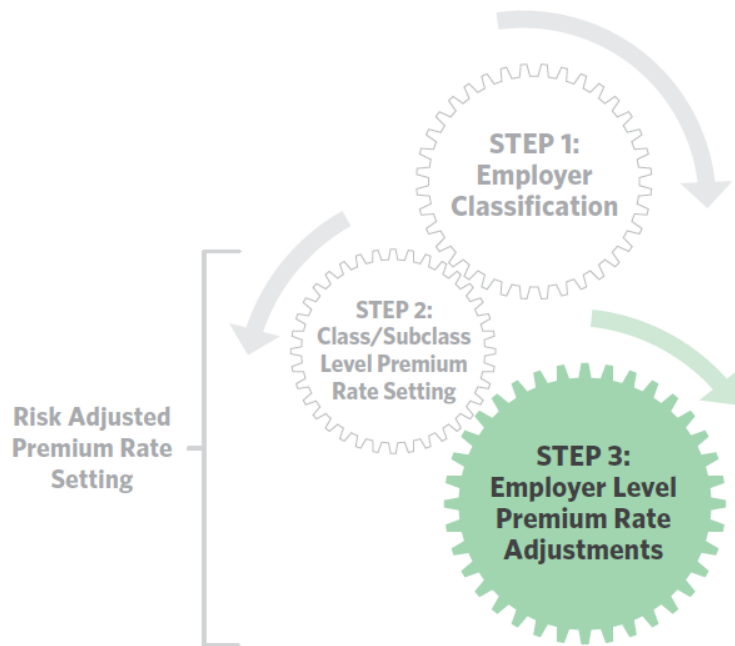
Objective: A Class/Subclass Projected Premium Rate that reflects the collective claims experience of all employers within each class/subclass, setting the stage for a significant range of potential premium rates at the employer level in Step 3.

Class Projected Premium Rate

- **Class Projected Premium Rate** is a premium rate based on the collective experience of all employers within a respective class, their allocation of administrative costs, and apportionment of the remaining UFL.
- The Rate Framework will continue with the current assignment of LLOD claims as a collective cost that is pooled at the class level. They would continue to be excluded from the claims experience of individual employers under the Risk Adjusted Premium Rate Setting process.
- The Rate Framework maintains the SIEF as an interim measure pending a program review. The WSIB recognizes the need for some form of cost relief, pending further review of details of the program and policy parameters, along with considering potential cost relief program alternatives.

The Class Projected Premium Rate does not act like the current rate group premium rate. It acts as a representation of the premium rate required from a particular industry class, and is a foundational component to Step 3 (Employer Level Premium Rate Adjustments) where individual employers will see their own annual premium rate better reflect their own risk and claims experience.

Step 3 – Employer Level Premium Rate Adjustments



Objective: One prospective premium rate setting approach for all employers, acting as an early warning for employers with premium rate implications, supporting their efforts aimed at improving health and safety outcomes.

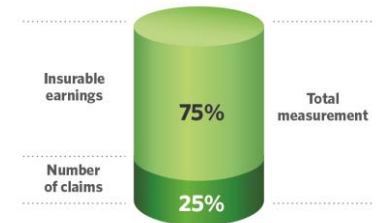
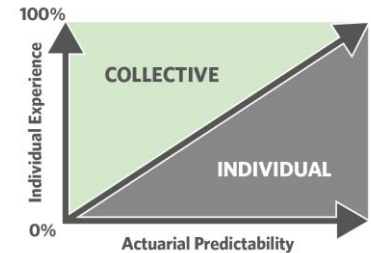
Setting Premium Rates

- The following steps describe the process that would be used to determine Employer Level Premium Rates under the Rate Framework by considering three variables:
 1. Insurable earnings
 2. Number of claims
 3. Actual claims costs

- **Steps**
 - A. Determining an Employer's Actuarial Predictability**
 - B. Determining an Employer's Total and Weighted Claims Cost**
 - C. Determining an Employer's Total and Weighted Insurable Earnings
 - D. Determining an Employer's Risk Profile
 - E. Determining the Class Risk Profile
 - F. Determining an Employer's Adjusted Risk Profile
 - G. Determining an Employer's Risk Profile Index
 - H. Determining an Employer's Projected Premium Rate**
 - I. Determining an Employer's Actual Premium Rate**

Actuarial Predictability (Step A)

- Actuarial Predictability measure the degree to which past claims cost can be relied upon to predict future outcomes to fairly set rates.
- This predictability or repeatability will determine the extent to which an employer's premium rate should be affected by their own individual claims experience versus greater protection from the collective experience of their respective class.
- An employer's actuarial predictability is determined by looking at the insurable earnings reported by an employer, and the number of injury claims over a six year period.
- Predictability Scale: is an extension of this concept and provides a greater level of consideration to individual employer experience with greater actuarial predictability, and greater insurance protection for employers with less predictability.



Predictability Scale	2.5%	5%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Specific Details	<=2.5%	>2.5% but <=5%	>5% but <=10%	>10% but <=20%	>20% but <=30%	>30% but <=40%	>40% but <=50%	>50% but <=60%	>60% but <=70%	>70% but <=80%	>80% but <=90%	>90%
Individual Experience for Premium Rate Setting (%)	2.5	5	10	20	30	40	50	60	70	80	90	100
Collective Experience for Premium Rate Setting (%)	97.5	95	90	80	70	60	50	40	30	20	10	0

Rate Setting Window (Step B)

- The Rate Framework includes a weighted rate setting window, that values the most recent three years at two thirds (66.6%), and the remaining three years at one third (33.3%).

Six year window including claim cost from Jan 1, 2009 to Dec 31, 2014						
Injury year	Incurred claim costs paid by year					
	2009	2010	2011	2012	2013	2014
2009						
2010						
2011						
2012						
2013						
2014						
	Total claim costs	Total claim costs	Total claim costs	Total claim costs	Total claim costs	Total claim costs

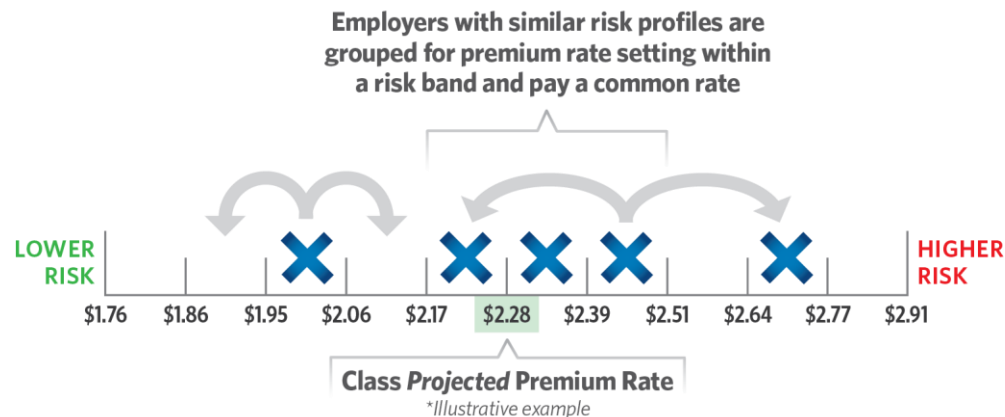
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⏟

1/3
2/3

- Key Goal Alignment: ***'Fairly Allocated Premiums'*** and ***'Balanced Rate Responsiveness'*** – provides stakeholders with increased opportunity to impact their rate by improving sustained health & safety and return to work efforts, considering their more recent workplace experience, rather than equally weighting years or the sensitivity of just one year's worth of experience.

Risk Banding

- **Risk Bands** are a hierarchical series of divisions within each class. Each division represents a different level of risk where employers would be placed relative to the Class Projected Premium Rate. In each class, risk bands are subject to limitations, such as the premium rate of the minimum risk band (\$0.20), and the maximum risk band will not exceed about three times the average premium rate for each industry class.
- The Rate Framework includes over 2,500 risk bands across Schedule 1, with each industry class having between 40 – 80 risk bands where individual employers would be placed with employers that share similar risk profiles.
- As such, the WSIB developed an approach to handle the varying risk of employers by creating risk bands that are in 5% increments in premium rate between each risk band, and sought to provide greater rate stability by limiting annual year over year rate changes to +/- 3 risk bands.



Determining an Employer's Projected Premium Rate (Step H)

- **Employer Projected Premium Rate** is an adjusted premium rate that represents how much an employer needs to pay in order to fund their fair share of costs, as well as the collective costs of their class.
- Subject to the graduated per claim limit, the Employer Projected Premium Rate identifies what the employer should be paying as a premium rate, based on their actual experience adjusted by the predictability scale relative to the class average and subject to the minimum charge (\$0.20) and the maximum premium rate as appropriate.
- The Employer Projected Premium Rate does not include the employer's starting point, nor does it include the three risk band limitations and the maximum risk band (about 3 times the class *average* premium rate) in each class, which reduces the premium rate volatility that an employer would experience in moving from their starting point towards their *projected* premium rate.
- The Rate Framework would act as an early warning for employers by providing target premium rates allowing employers to better identify the future projected path of their premium costs and take proactive health and safety actions (e.g. prevention and return to work to address the risks).

Determining an Employer's Actual Premium Rate (Step I)

- **Employer Actual Premium Rate** is an adjusted premium rate that represents how much each employer would pay taking into consideration risk band limitations, previous year(s) premium rates, minimum premium rate, maximum premium rate as appropriate, and the collective experience of all employers in that class.
- In order to move employers from the current to the new process, a **starting point** or **-Net Premium Rate**, based on the Employer Actual Premium Rate, needs to be established.
- When transitioning from the current system to the Rate Framework:
 - For employers who are currently participating in WSIB experience rating programs: using the employer's average "net" premium rate (after considering experience rating refunds and surcharges) over the last three years; and
 - For employers who are currently not experience rated (who are not eligible to participate in an experience rating program) using the premium rate of the RG from the prior year.
- The starting point for all employers in the following years would be their previous year's premium rate, towards achieving their projected premium rate.

Mechanism for Greater Employer Accountability

- The WSIB undertook a further review to develop a specific approach to attribute greater employer responsibility for those employers who had claims experience that was out of step with the other employers in their industry.
- The intent is to identify a set of employers that may benefit from engagement with the WSIB and system partners with respect to health and safety and return to work.
- Depending on those outcomes, some employers may warrant greater accountability for costs they bring to the system – however, greater premium costs would not be issued automatically without some opportunity, over the course of some time, to take steps to address discrepancies in their performance.
- The WSIB modeled a set of criteria to identify a set of employers that would benefit from supports and services to address poor claims cost performance, which includes:
 - Employers who ‘ought’ to be paying a premium rate (i.e. ‘projected employer premium rate’) that is greater than the Maximum Risk Band identified for their industry; or
 - Employers who have a difference between their projected risk band and their actual risk band that is greater than 20 risk bands (approximately 100%).
 - Refinements to ensure anomalous circumstances were excluded.

Mechanism for Greater Employer Accountability (Con't)

A gradual approach to greater accountability will provide an opportunity for employers to take steps to address some of the drivers of their claims costs experience. This gradual approach would be structured as follows:

- **Year 1 – Awareness:** The employer would be informed of their position to ensure they understood the extent that their experience is out of step with their industry, or their current rate.
- **Year 1 - 2 – WSIB H&S services engagement:** If the employer does not make improvements or demonstrates worse performance than year 1, the employer would be offered support from the WSIB and system partners.
- **Year 3 – Risk band increases:** If the employer continues to not make improvements or demonstrates worse performance than in prior years, or based on the consideration of other OHS factors (e.g. potential leading indicators, or compliance outcomes under the *Occupational Health and Safety Act* or the *Workplace Safety and Insurance Act*) they would see progressive increases in their risk band and rates.

Compass: A Workplace Tool in Support of OHS

- The WSIB is committed to the development of Compass and recognizes that this initiative is an important companion to the Rate Framework as it enhances the customer experience with the WSIB and responds to stakeholders needs for actionable information to promote active participation in occupational health and safety.
- With Compass, workplaces will be able to learn about injuries and claims that impact safety performance and the resulting rate setting.
- The Rate Framework and *Compass* together act as an early warning for employers by providing projected premium rates allowing employers to:
 - understand the nature of their injuries in greater detail
 - identify the future projected path of risk and premiums
 - benchmark their performance against industry peers
 - take proactive OHS actions (e.g. prevention and RTW)
 - target specific workplace risks and hazards
- This new offering addresses the Rate Framework’s Key Goal of ‘Transparent and Understandable’ in that employers and workplaces would have actionable information to promote health and safety.



What is Next?

- As we move past the approval of the Rate Framework, the WSIB fully appreciates the desire to obtain employer level information and agree that engaging employers with that level of detail is an important of transition.
- In 2017, following the approval of the Rate Framework, the WSIB will to do exactly that, and thereafter continue to share annual employer level rates (e.g. shadow rates) for informational purposes moving towards implementation of the new Rate Framework, targeted for January 2019, at the earliest.
- When sharing employer level rates, the WSIB would also look to provide additional information to help individual employers understand the composition of their rate, and any gradual transition that may be required towards rates that better reflect their actual claims experience.
- In addition, this information will identify the future projected path of their premiums rates, help them understand that sustained and proactive occupational health and safety efforts would best position them to maintain or improve their premium rate outcomes, and support the identification of the workplace drivers that contribute to their risk. This will provide greater lead time, ahead of any implementation, to effect change where required.
- The WSIB recognizes the value in providing workplaces with actionable information to promote active participation in health and safety. The WSIB is committed to the development of *Compass*, an online tool similar to the Worksafe BC Tool Kit and will be engaging with stakeholders in its design.
- The WSIB will also develop the Policy Framework associated with the Rate Framework, including stakeholder engagement in 2017, ahead of publishing final policies by January 2018, one year prior to targeted implementation.

For further information visit

www.wsibratereform.com

Or email us at consultation_secretariat@wsib.on.ca