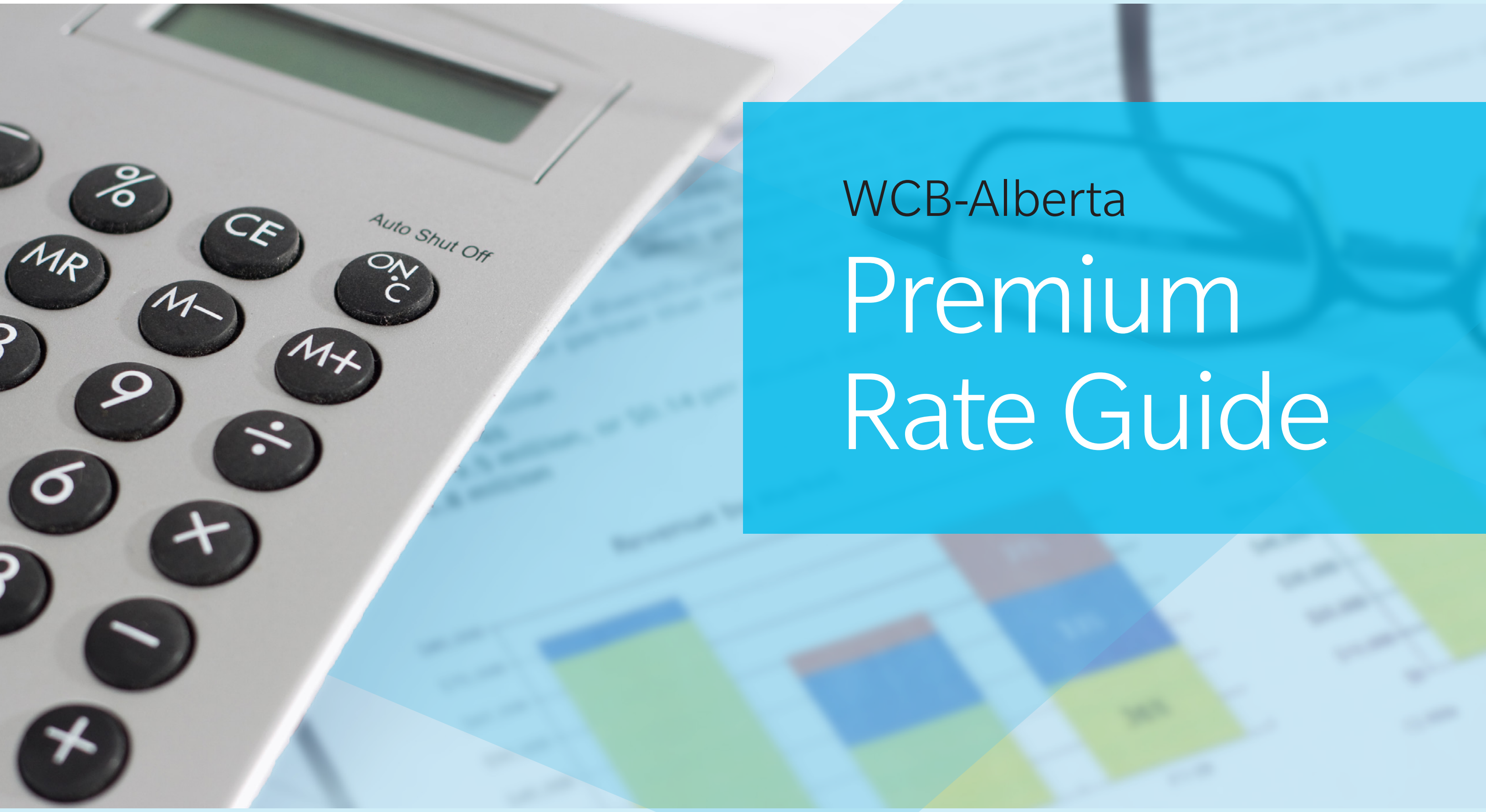


WCB-Alberta

Premium Rate Guide

wcb
Workers' Compensation Board – Alberta

Rate setting overview

Employers pay premiums to fund workers' compensation insurance. WCB-Alberta (WCB) determines premium requirements annually based on the best estimates of assessable earnings and cost of claims occurring in a given rate year. Rate setting distributes premiums among all industries.

Rate setting principles

An employers' premium rate directly reflects their industry's performance as well as their own within the workers' compensation system. The premium rate is the cost of coverage per $100 of assessable earnings of an employer's workers (plus any personal coverage).

We set rates using the following principles:

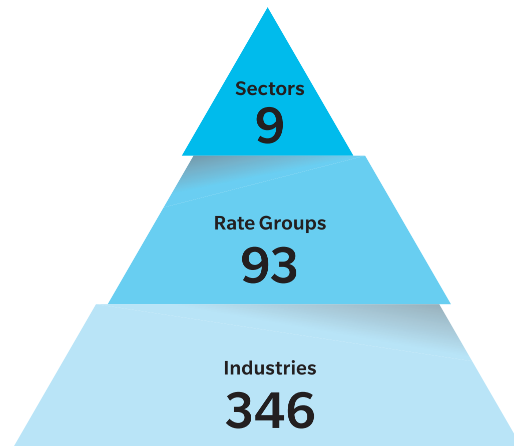
- **Full-funding.** The cost of any given year is fully-funded by that year's premiums. This means the premiums collected in a rate year need to cover all current and future costs for the claims from employers operating in that same rate year. Over 70% of these costs are paid well into the future. It is imperative to secure a worker's benefits for the lifetime of the claim and not pass costs on to future employers.
- **Collective liability.** An employer's premium rate is affected by the claims experience and trends within their rate group. Costs are spread among all employers to create a balance between collective liability and individual employer accountability. Although an employer's own performance may have improved, the industry rate may increase due to the overall performance of employers in the rate group.
- **Accountability and incentives.** Rates vary based on claims experience, so each employer and industry is accountable for their performance. Refer to the Pricing Guide for details.

Classification and rate setting structure

The foundation for premium rate setting is a classification system used to identify employers with similar business and risk characteristics. Employers are classified by the industry in which they conduct business.

WCB conducts annual reviews of our classification structure to ensure we continue to have a sound experience rating system with adherence to statistical reliability and a commitment of fairness to employers.

Rate setting structure



- **Sectors.** Sectors represent similar economic activity and consist of rate groups. Statistical information at the sector level is used to adjust rate group costs to provide for full-funding of claims.
- **Rate Groups.** To attain a sufficient statistical base, industries are consolidated into broader categories referred to as rate groups. Rate groups are formed on the basis of similar business characteristics and loss patterns. The performance of industries within a rate group is monitored to ensure trends do not diverge substantially within the rate group. Single industries may form rate groups when reliable rate setting information exists; however, this is not usually the case.

The experience of the rate group is the primary influence on premium rates for employers in each rate group and provides accountability. Premium rates are based on the experience of each rate group and use statistical information for the first five of the previous six-year period.

- **Industries.** Employers are classified into industries based on the business they conduct. Statistical information on claim costs and assessable earnings is recorded and tracked by industry.

Rate setting process

The rate setting process begins by forecasting the total full-funded costs of claims occurring in a given rate year. This involves forecasting costs well into the future. For statistical reliability, an overall forecast is made using the most current trend for all industries.

Rate setting then becomes a process of determining industry rates, which will meet the overall forecast of the cost of claims. The experience of each rate group is the primary basis for setting industry rates. Initially the rate group's claims experience over a five-year period is used to determine a base rate for the rate group. Since this calculation includes actual claims costs paid within that period alone, it produces only a portion of the revenue needed to fully fund the cost of claims. To include a provision for expected future costs, a balancing factor needs to be applied. Sector level information is used to determine a full-funding factor which is applied to the base rate for each industry, which reflects long-term claim trends within each sector.

Additional loading factors and allocations to meet other funding requirements are then applied to arrive at final industry rates.

Industry rate variations

Generally, all industries within a rate group will have the same industry rate. However, industry rates within a rate group may vary due to loading factors that are industry specific. There are four reasons industry rates may vary within a rate group:

- **Occupational Health & Safety (OH&S)** – The first reason for variance is funding of OH&S. The OH&S levy is not applicable to industries that are regulated federally.

- **Safety associations** – The second reason is funding of safety association programs. Safety association levies are applied by industry. Not all industries within a rate group are subject to such levies. For example, businesses in industry 87503-Hotels/Convention Centres, are the only industry within their rate group subject to a levy required to distribute funding to the Alberta Hotel Lodging & Association.

- **Pricing incentives** – The third reason for variances between industry rates within a rate group relates to pricing incentives like Partnerships in Injury Reduction and experience rating. With the introduction of Industry Custom Pricing, various industries that have chosen the "waiving of cost relief option" are not required to fund retroactive cost relief and are not subject to the levy collected to fund this.

- **Classification & rate group restructuring** – The final reason for a variance relates to classification changes and rate group restructuring. Increases and decreases due to rate group restructuring are balanced within the rate group so the rate group, as a whole, will contribute the required premium.

Steps in calculating premium rates

Step #1 – Full-funded cost of claims

Projections are made for the full-funded cost of all claims, and the full-funded costs are apportioned by sector based on the respective experience within each sector.

Step #2 – Rate group base rate

Rate group claim costs **/** *Assessable earnings* **/** *100*
= *Base rate*

Step #3 – Full-funding factor*

Sector full-funded costs **/** *Sector base rate premium*
= *Full-funding factor*

* The detailed actuarial calculation and the statistical information for this calculation is not included in these materials.

Step #4 – Required rate for claims

Base rate **x** *Full-funding factor*
= *Required rate for claims*

Step #5 – Total required rate

Required rate for claims **+** *Loading costs*
= *Total required rate*

Step #6 – Industry rate

Total required rate **+** *Funding policy requirement* **+** *Rate credit* **=** *Industry rate*

Detailed calculation of rates

The following summarizes the steps in calculating premium rates.

Step #1– Determine full-funded cost of claims

Actuarial work is done to forecast the aggregate amount required to fully fund the cost of claims expected to occur in a rate year. This means accounting for future costs beyond the rate year. This forecast is based on current economic and claim trends for the province as a whole. Full-funded costs are forecast for each of the four benefit types (wage replacement, medical benefits, pension benefits and fatality/survivor benefits).

Step #2 – Determine rate group base rate for claims

Rate group claim costs **/** *Assessable earnings* **/** *100*
= *Base rate*

A rate group base rate is calculated by dividing the five-year claim costs per $100 of assessable earnings for each of the four benefit categories. The calculation of the base rate only uses the actual or paid costs as of December of the last year of the experience period for claims occurring in the previous five years. There will be a significant amount of future costs to be transacted on these claims, especially for claims occurring in the most recent years. In addition, for the purpose of determining the base rate, the cost on any one claim is capped for each rate group at $110,900 to provide insurance protection for those random but costly claims. With these limitations, the base rate alone would not meet full-funded revenue requirements.

Step #3 – Determine full-funding factor

Sector full-funded costs **/** *Sector base rate premium*
= *Full-funding factor*

To achieve full-funding, base rates are adjusted by determining a full-funding factor for each benefit type in each sector. A five-year history is used to calculate each sector's share of overall full-funded costs for each benefit type. The full-funding factor is calculated by determining the amount of premiums which are generated through the base rates for all rate groups within a sector, and dividing this by the amount of the full-funded costs for the sector.

For example, it is determined through step #1 the full-funded medical benefits in the Business, Personal and Professional Services sector are $30 million and the base rate premium is $15 million. As a result, the medical benefits base rate for each rate group in that sector is adjusted by a factor of 2 to provide for full-funding of medical benefits for this sector.

Step #4 – Determine the required rate for claims

Base rate **x** *Full-funding factor*
= *Required rate for claims*

The base rate multiplied by the full-funding factor produces a required rate for claims for each benefit type. The sum of the required rates for each benefit type determines the required rate for claims within each rate group.

Step #5 – Determine the total required rate

Required rate for claims **+** *Loading costs*
= *Total required rate*

Through premium rates, WCB collects premiums to cover operating costs as well as to fund pricing incentives, safety programs, and the Appeals Commission.

There are five separate loading costs which may be applied:

- **WCB administration**

  Required rate for claims **+** *Loading costs*
  = *Total required rate*

  WCB administration is also fully funded. This means premiums are collected to cover the present and future cost of administering claims occurring this year. All employers and industries share this cost.

  There are two components to this levy. The majority of the administrative budget is charged out as a percentage of the required rate for claims (approximately 75%). This covers the full-funded cost of claims administration as well as 50% of general administrative costs. Applying this as a percentage of the claims rate makes this a variable charge reflecting a user pay principle. The remaining 50% of general administrative costs is charged out as a flat or fixed rate for all industries in all rate groups.

- **Pricing Incentives**

  Required rate for claims **x** *PIR %* **+** *Cost relief Levy (% + flat rate)* **+** *Off balance rate adjustment*

  WCB provides financial incentives to employers for accident prevention and disability management through both compulsory and voluntary rate modification programs. An inherent feature of these programs is that discounts generally exceed surcharges thereby reducing the overall premiums paid.

  The costs of the Partnerships in Injury Reduction (PIR) program are shared by employers and industries, subject to the pricing programs in which they participate.

  All industries that continue to use cost relief in their pricing programs will be subject to a retroactive cost relief levy. The majority of the cost relief provision (approximately 75%) is charged out proportionally, based on historical cost relief usage of industries within each rate group who continue to use cost relief making this a variable charge reflective of a user pay principle.

  The remaining 25% of total cost relief provision is charged out as a flat or fixed rate for all industries within each rate group that continue to use cost relief.

The sum of these two individual components makes up the total value of this provision, subject to a minimum amount of $0.01.

The remaining costs for pricing incentives are as a result of the cost of experience rating plans. Experience rating generally produces more discounts than surcharges and the resulting off balance is funded through industry rates. An off balance is determined for each rate group and a corresponding adjustment is applied to the rate.

The Poor Performance Surcharge (PPS) program produces additional premiums which are used to reduce the off balance in the experience rating program. Each rate groups' rate is lowered by the amount of additional premiums collected from employers subject to a PPS.

- **Occupational Health & Safety (OH&S) Programs**

  Industries subject to provincial health and safety regulation have a levy applied to provide funding to the Government of Alberta. Where applicable, this is calculated as a percentage of the required rate for claims.

- **Safety associations**

  Funded safety associations represent industries to promote workplace safety through education and other initiatives. Certain industries fund industry sponsored safety associations through levies in their premium rates. Levies are calculated based on funding requests received from the safety associations. Levies may be a flat rate or calculated as a percentage of the required rate for claims.

- **Appeals Commission and medical panels**

  The Appeals Commission and medical panels are also funded through the rates, with all industries and employers contributing. WCB collects a percentage of the required rate for claims from each of the industries and transfers it to the Government of Alberta for operation of the Appeals Commission and the medical panels.

Step #6 – Determine the industry rate

Total required rate **+** *Funding policy requirement* **+** *Rate credit* **=** *Industry rate*

The Alberta Workers' Compensation Act requires that sufficient funds be available in WCB-Alberta's Accident Fund for the payment of present and future compensation to injured workers. The Accident Fund is considered fully funded when the total of all assets equals or exceeds 100% of the total liabilities.

WCB-Alberta's funding policy establishes a funding range between 114% and 128%. In recognition of a difficult economic environment, the average rate is being held steady through the application of a rate credit. Consistent with other levies, a credit or reduction is applied to industry rates and is calculated as a percentage of the required rate for claims.