WorkSafe
Travail sécuritaire NB

# 2014
# ASSESSMENT RATES

# FOREWORD

WorkSafeNB determines employers' assessment rates annually as outlined in this document. Several factors influence rates, such as WorkSafeNB's current financial obligations, the prevailing economic environment, the cost of health care services, injury frequency and severity, claims adjudication and benefit policies and practices, legislation, workplace prevention and return to work initiatives and support, as well as the changes in the nature of workplace activity in the province.

Each year's assessment rates must generate enough revenue to cover all current and future costs associated with workplace injuries occurring in the assessment year, including health care, rehabilitation and wage replacement benefits. In addition to accident related expenses, the assessment rates also include all expenditures for safety and prevention programs, all administrative expenses and may include a funding adjustment to account for prior year deviations. For 2014, the average rate per $100 of assessable payroll will be $1.21, a 16% reduction from the $1.44 average rate in 2013.

All information presented in this report relates to assessed employers covered under the *Workers' Compensation Act*. Assessment rates are not established for federal and certain provincial government institutions whose claims are administered on a self-insured basis. As a result, many of the statistics presented will differ from those in the annual and stakeholders' reports, as they include information relating to both assessed and self-insured employers. Furthermore, contributions to fund claims under the *Firefighters' Compensation Act* are determined and collected separately.

November 2013

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# I – AVERAGE ASSESSMENT RATE

The assessments collected each year must meet WorkSafeNB's financial obligations as defined under the Act and by policy. Once the overall projected revenue requirement is determined, it must be collected from individual rate groups, industries and employers by way of assessments levied through a rate per $100 of assessable payrolls.

| | | |
|---|---|---|
| **Assessed Payroll Projection** | **$ 8,478 million** | |
| **Required Revenue Projection** | **in millions** | **per $100 payroll** |
| Cost of Benefits | $ 77.7 | $ 0.92 |
| Policy Changes | $ 8.3 | $ 0.10 |
| Administration and Other Costs | $ 38.3 | $ 0.45 |
| Target Funding Level Adjustment | $ (21.8) | $ (0.26) |
| **Total Required Revenue** | **$ 102.5** | **$ 1.21** |

## PAYROLL PROJECTION

Each worker's annual payroll must be reported up to $60,100, the maximum assessable payroll amount for 2014, a 1% increase over 2013. The Conference Board of Canada also predicts 1.1% general wage inflation for New Brunswick in 2014, rebounding after struggling in 2013.

Payrolls are projected for each industry group by comparing a series of independent estimates to internal projections based on the payroll reported through the end of July. Additional consideration is given to short-term economic fluctuations (opening/closure of a large employer, major construction projects, etc.). As with any forecasting process, deviations from the projection will occur.

Forecasting changes in business activity in the province can also help predict changes in claim levels. Historically, costs and payrolls/assessments shift in a reasonably consistent manner so there is not usually a material gain or loss solely as a result of a deviation between actual and expected payrolls/assessments. On the other hand, a significant change in economic activity could have an impact on the balance between assessments and claim costs. Over the past decade, the year-to-year industry shifts have not had a measurable impact on claiming activity. However, in comparison to 10 years ago, a larger portion of payrolls is now earned in lower risk industries as the manufacturing and construction sectors account for a smaller proportion of the workforce. The change in business activity in the province is one of the many factors contributing to the decrease in the average assessment rate over the past few years.

| | **2014** |
|---|---|
| **Payroll Projection in millions** | **$ 8,478** |

# REQUIRED REVENUE PROJECTION

The estimated revenue required by policy and legislation must cover the projected cost of benefits for accidents occurring in 2014, any shifts in benefits arising from legislative and policy changes, the estimated administration costs from the approved budget, and the funding provision required by policy.

## COST OF BENEFITS

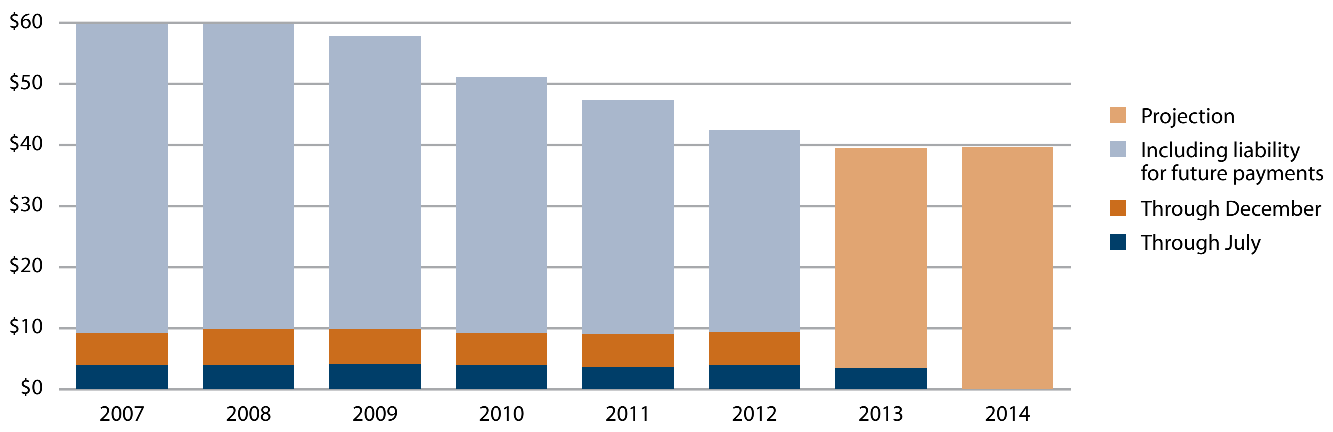
Assessments collected must fully fund the cost of claims expected to occur in the assessment year including all future costs associated with these claims. For a young injured worker, payments could continue for the next 80 years. Actuarial forecasts project the aggregate amount required based on current WorkSafeNB practices, as well as current economic and claim trends for the province. The future could bring changes in fee levels, policies and/or practices that were not taken into account when this report was prepared. For example, Appeals Tribunal or Court of Appeal decisions could lead to unexpected changes. Furthermore, events may not materialize precisely as assumed as a result of changing economic conditions.

Claim cost projections are primarily based on prior year results with analysis of recent trends and any known changes in fee levels, policies, procedures, etc. Trends can be very difficult to uncover and interpret for a number of reasons. For instance, only a small proportion of new accident costs are actually paid in the year of accident. Furthermore, billing and payment delays can mask an emerging trend. History has shown that some increases or decreases in costs in a given year are only temporary fluctuations. Generally, at least three years of data is needed to confirm cost trends.

The chart below illustrates actual costs through July and December in dark blue and dark orange. The larger portion of costs, presented in light blue, is the accident year's liability projected at its year-end. The declining cost projections reflect the improved frequency experience. The number of claims receiving wage replacement benefits in the accident year has declined considerably over the last five years. There were 2,424 such claims in 2012, compared to 2,943 in 2007. More recent statistics show a slight increase in average claim duration suggesting that the prevented injuries were likely less severe on average. Wage replacement and rehabilitation costs through the end

## NEW ACCIDENT COSTS

**Wage Replacement and Rehabilitation (in millions)**

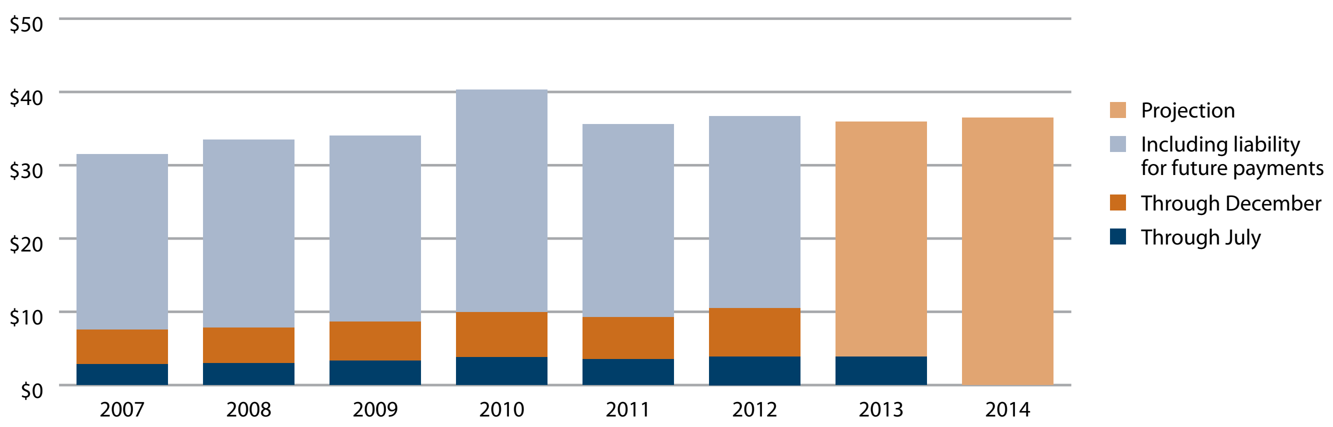


of July for 2013 accidents were 13% lower than 2012, but it is still unclear if experience will continue to improve through the end of 2013. Factoring in inflation and claiming trends coupled with the observed decrease through July, 2013 claims are expected to cost slightly less than 2012 claims. A range of projections was developed for 2013 and 2014 assuming continued improvements for the optimistic scenario and a small increase in claiming activity for the conservative scenario. The projections assuming continued improvement in claiming activity are illustrated in light orange in the chart on the previous page.

As with wage loss, the chart below illustrates the new accident costs associated with health care. Health care costs are more volatile and challenging to predict than wage loss benefits. For example, actual health care expenditures in 2010 were much higher than expected, having a large impact on 2010 projections. Costs returned to normal levels in 2011 and projections have since been adjusted downward. WorkSafeNB covers all health care expenses including medical appointments, hospital stays and prescriptions. In fact, the workers' compensation system predates the Medicare system such that the government and its taxpayers do not bear any costs associated with workplace injuries. It is difficult to predict exactly which medical treatments will be needed by injured workers and how much those treatments will cost, especially with rapidly increasing fees and advances in medical technology. While the number of accidents requiring health care before December of the accident year has decreased from 2007 to 2012, the drop is not as pronounced as it was for wage replacement benefits. In 2012, health care invoices for 9,424 workers injured were processed before the end of the year compared to 10,501 in 2007. Health care expenditures through July of 2013 showed a marginal decrease of 0.3%. A range of projections was developed for 2013 and 2014 assuming stability for the optimistic scenario and higher usage and fees for the conservative scenario. The projections assuming stability are illustrated in light orange in the chart below.

## NEW ACCIDENT COSTS

**Health Care (in millions)**



Unfortunately, between five and 10 workplace accidents have resulted in a fatality each year over the past decade. An amount of $1.6 million will be collected in 2014 to cover estimated benefits for dependent survivors.

WorkSafeNB also recognizes a liability for long latency occupational diseases. This liability is calculated as 4.5% of benefit liabilities. The interest earned by assets invested to cover this liability should be sufficient to maintain the target level of the reserve. Therefore, no additional provision was included in assessment rates for 2014.

While the range of possible outcomes was developed using historical data and reasonable assumptions, it is possible for significant deviations to occur and results may even be lower than the optimistic projection and higher than the conservative projection. Given the strong financial position of the organization and recent trends, the board of directors concluded it was appropriate to use the revenue requirement for 2014 reflecting continued improvement in accident frequency and stable health care costs.

| **Estimated Cost of Benefits in millions** | **2014** |
|---|---|
| Wage Replacement and Rehabilitation | $ 39.6 |
| Health Care | $ 36.5 |
| Survivor Benefits for Fatal Injuries | $ 1.6 |
| Occupational Diseases | $ 0.0 |
| **Total** | **$ 77.7** |

## CHANGES IN LEGISLATION AND POLICIES

According to the *Workers' Compensation Act*, wage loss compensation to injured workers must not exceed 85% of net pre-accident earnings when combined with any remuneration received from the employer, income replacement or supplement benefit. A decision by the New Brunswick Court of Appeal has ruled that Canada Pension Plan Retirement (CPPR) benefits do not qualify as benefit supplements. CPPR benefits were identified last year and the cost projections presented above reflect the higher benefit level for the small portion of claimants eligible for CPPR benefits.

Upon further review of the Court of Appeal decision, the board of directors excluded additional benefit supplements, increasing benefits paid to some injured workers. The policy now states that any remuneration must be both earned and received during the disablement period to be deducted as a supplement to compensation. While the projections presented in the previous section exclude these latest changes, the 2014 revenue requirement includes an additional $7.8 million to cover the estimated cost of the increased benefits. Estimated increases in new accident costs account for approximately $6.2 million, while $1.6 million is required to fund a portion of the anticipated liability increase for prior years' claims.

While it is not known how many injured workers might be eligible for these benefits, a number of reasonable assumptions were used to develop the preliminary forecasts. In addition, the benefit increases may also bring about changes in claiming patterns. Experience will be monitored and estimates revised as trends emerge.

The mileage rate per kilometre associated with claims-related travel will be upgraded for 2014, resulting in a financial impact of $1.6 million on the 2014 required revenue. New accident costs are estimated to increase by $0.7 million, with the additional $0.9 million required to fund a portion of the anticipated liability increase for prior years' claims.

The provincial government implemented income tax increases in July 2013. According to the *Workers' Compensation Act*, wage loss compensation to injured workers must not exceed 85% of net pre-accident earnings. Increasing taxes reduces the net pre-accident earnings of a claimant and therefore reduces benefits. New accident costs are expected to decrease by $0.5 million. A portion of the anticipated liability decrease associated with prior years' claims will also reduce required revenue by an additional $0.6 million, resulting in a $1.1 million reduction.

| **Changes in Policy in millions** | **2014** |
|---|---|
| Supplements | $ 7.8 |
| Mileage | $ 1.6 |
| Income Taxes | $ (1.1) |
| **Total Changes in Policy** | **$ 8.3** |

## ADMINISTRATIVE AND OTHER COSTS

WorkSafeNB's present and future administration and other operating costs for claims occurring in the assessment year are fully funded through assessments. The budgeted administration expenses approved by the board of directors include a liability for future administrative expenses associated with claims already reported. This means that some of the current administration expenses have already been provided for through prior years' assessments. On the other hand, new accident costs must include a provision for future administrative expenses of current year accidents. Based on past experience, provisions for uncollectable assessments and the additional revenue that is expected from interest and penalties charged to employers are also included.

| | **2014** |
|---|---|
| **Administration and Other Costs in millions** | **$ 38.4** |

## TARGET FUNDING LEVEL

WorkSafeNB has a long-term outlook and collects assessments today to pay benefits well into the future. Likewise, benefits are being paid today with funds collected many years ago. In a perfectly predictable world, WorkSafeNB would be 100% funded and would have assets perfectly matched with liabilities. Unfortunately, neither assets nor liabilities are perfectly predictable.

WorkSafeNB holds assets in a diversified investment portfolio, providing an additional source of income to help fund future benefits. Without this additional source of revenue, assessment rates would be much higher. While the investment strategy provides reasonable assurance that the assumed annual rate of return of 6.6% will be earned over long periods of time, financial markets are impossible to predict over the short to medium term. WorkSafeNB's invested assets totalled $1,156 million on December 31, 2012 such that each 1% of interest earned yields $11.6 million. Favourable investment returns over the past few years have had a very positive impact on the organization's financial position.

While liabilities may not be as volatile as investment returns from year to year, they too can generate gains and losses. Each year, using past experience, actuaries estimate the amount that should be invested on December 31 to meet all future obligations to injured workers. As claims mature, the estimates are revised annually with the most up-to-date information available. Since costs have been lower than expected over the last few years, liabilities for existing claims have been adjusted downward, also having a very positive impact on the organization's financial position.

Transition towards new International Financial Reporting Standards (IFRS) continues. These changes are expected to improve transparency and consistency of reporting across jurisdictions. The full implementation of IFRS may impact the funding level in the future. WorkSafeNB continues to monitor the proposed changes to standards of practice and their potential impact on December 31, 2013 reporting.

With assets growing and liabilities for prior year accidents shrinking, assets were in excess of liabilities by $278.7 million by the end of 2012. The resulting funded ratio of 126.7% is well above both the legislated requirement of 100% and the funding policy target of 110%. When WorkSafeNB's funding position is in a deficit situation, legislation requires the shortfall to be recovered through assessments over a period of no more than five years. As part of WorkSafeNB's long-term fiscal strategy, the current funding policy targets a funded ratio goal of 110% to better weather the periods when financial markets may struggle. When the funding position is above or below the 110% target, the surplus or shortfall is to be amortized in the assessment rates over a period of no more than eight years. The 2014 average assessment rate includes a reduction of $21.8 million (equivalent to $0.26 per $100 of payroll on the average rate). Some of the 2014 operating costs will be funded through the surplus rather than entirely through assessments. Likewise, in years where the funding level may fall below target, employers' assessments will exceed operating costs in an effort the make up the shortfall.

| | 2014 |
|---|---|
| **Target Funding Level Adjustment in millions** | **$ (21.8)** |

# II - CLASSIFICATION

Instead of taking a 100% collective liability approach, where all employers are assigned the average assessment rate, WorkSafeNB uses a distribution of assessment rates to promote fairness and accountability. This system creates incentives for firms to improve their occupational health and safety practices and performance.

Employers are assigned to classes that present a similar risk of workplace injuries. Classification is a fundamental building block for all subsequent calculations in the process. The rate classes' historical experience relative to others is used to determine appropriate assessment rates such that employers pay their fair share of benefit costs. An industry will occasionally be classified into a different industry group and/or rate group if a change in accident experience occurs. The objective is to maintain a balance between stability and responsiveness, with changes made only when warranted by a continued significant change in cost experience.

Cost ratios are used to compare industries and identify trends. They include five-year new accident costs divided by the payroll reported over the same period. Five-year new accident costs include all payments (up to $120,000 per claim) for the accidents having occurred in the five most recently completed calendar years. Since the 2014 assessment rates are calculated in 2013, the five-year period spans 2008 to 2012. Because all fatalities are serious even though some may be relatively inexpensive, all fatalities are assigned $120,000.

The classification of employers into rate groups proceeds in three steps:

## INDUSTRIES

Employers are assigned to one of 785 industries as defined by the North American Industry Classification System (NAICS), based on their primary business activity. Employer classifications are periodically reviewed and adjustments are made throughout the year if inaccuracies are uncovered or if employers change their business activity.

## INDUSTRY GROUPS

Industries involved in similar activities, which are expected to have similar cost experience, are grouped into one of 77 industry groups. Usually, sequential NAICS codes are grouped together and efforts are made to avoid dominance of a single employer. Ideally, all industry groups should combine enough employers to have at least $500,000 in five-year new accident costs to minimize volatility of results from year to year. Industry groups are reviewed annually to ensure the groupings continue to be appropriate.

## RATE GROUPS

Industry groups with similar cost experience history and trends are combined into one of 19 rate groups. Very large industry groups may form their own individual rate group while smaller industry groups are combined to have at least $3 million in five-year new accident costs to provide a credible basis of analysis. Rate groups are also reviewed annually.

# III – RATE CALCULATION

| Basic Rate | + | Experience Rate | = | Net Rate |
|---|---|---|---|---|

All employers are assigned a basic rate based on their rate group classification. If eligibility criteria are met, employers will also be assigned an experience rate. Assessments are calculated by multiplying the net rate by annual payroll divided by $100, subject to a $100 minimum assessment amount.

## BASIC RATE

$$\text{Average Assessment Rate} \times \frac{\text{Rate Group's Proportion of Costs}}{\text{Rate Group's Proportion of Payroll}} = \text{Basic Rate}$$

The rate group's total experience relative to all assessed employers determines the basic rate. Using the same five-year data defined in the previous section for classification, each rate group is responsible for a given percentage of total claim costs and payroll. Such that a rate group accounting for an equal percentage of overall costs and payroll will pay the average assessment rate. Alternatively, a higher risk rate group with a percentage of costs that is twice the percentage of its payroll will pay twice the average rate. The calculated basic rate is subject to the minimum basic rate of $0.28. WorkSafeNB publishes a table of basic assessment rates for all industries on the website each year.

### RECLASSIFICATION

While it is important for rates to reflect current experience, it is also important to introduce a measure of stability into the process to avoid unreasonably wide swings in the assessment rate applicable to individual employers from year to year. In the event of a large change in basic rate resulting from classification into a different industry group or rate group, annual transition limits continue to be applied until the target basic rate is reached. Basic rate decreases are limited to 20% in addition to the percentage change in the average assessment rate. Basic rate increases are limited to the greater of the percentage change in the average assessment rate plus 20% or $0.20. Given the 16% decrease in the average rates, 2014 reclassification decreases will be limited to 36% and the increases limited to the greater of 4% or $0.20. While this may be seen as producing a less responsive system, the fact that all industry groups are reviewed each year limits the risk of employers paying an assessment rate that does not reasonably reflect current accident experience for their industry. Furthermore, large industries that have credible experience are generally in their own rate group and are not subject to reclassification.

From 1996 to 2008, employers were classified into industries using the Standard Industrial Classification (SIC). WorkSafeNB adopted the NAICS in 2009, as it provides a more current industry classification system that better reflects New Brunswick's industry make-up. While most employers felt little change, some employers were reassigned under NAICS to much lower or higher rate groups. Transition limits were applied to all employer accounts in 2009. The 90 employers most affected by the change continue to be capped by the same limits described above as they continue to work their way towards target rates.

# EXPERIENCE RATE

$$\text{Basic Rate} \times \text{Participation Factor} \times \text{Rate Adjustment} = \text{Experience Rate}$$

Experience rating is designed to improve employer awareness of the importance of safety in the workplace and to achieve greater equity through the use of rewards and penalties based on the employer's own cost experience relative to their assigned rate group. Unlike the basic rate calculation, only the three most recent complete years of experience are used for experience rating. Claims cost above $60,000 per claim are excluded and fatalities are also charged with $60,000 regardless of the actual cost of the claim. The three-year period for 2014 assessment rates covers 2010 to 2012. An employer may see significant swings in experience rates from year to year as accidents occur or as they mature and are no longer included in the three year experience rating period.

Overall, the surcharges collected from employers with above average experience fund the rebates given to employers with better than average experience in each rate group such that no additional revenues or expenses are generated by the experience rating program.

## ELIGIBILITY

Employers with average assessments of more than $2,000 at their current industry's basic rate over the three-year experience rating period participate in the program.

## PARTICIPATION FACTOR

$$\left( \frac{\text{Three-Year Average Assessments} - \$2{,}000}{\$750} + 25 \right) / 100 = \text{Participation Factor}$$

This factor determines the credibility or weight assigned to the employer's experience. The minimum qualifying average assessment of $2,000 will result in a 25% participation rate. This rate increases 1% for every additional $750 in average assessments, up to a maximum of 100% reached when assessments exceed $58,250.

## EMPLOYER VARIANCE

$$\frac{\text{Employer's Cost Ratio}}{\text{Rate Group's Cost Ratio}} - 1 = \text{Employer Variance}$$

$$\text{Where, } \frac{\text{Costs}}{\text{Payroll}} = \text{Cost Ratio}$$

The employer variance measures the employer's experience versus the experience of its assigned rate group. If an employer's cost ratio is less than the rate group's cost ratio, the employer will be rewarded with a rate reduction. On the other hand, if an employer's cost ratio is greater than the rate group's cost ratio, the employer will have a rate surcharge.

## RATE ADJUSTMENT

$$\frac{\text{Employer Variance}}{2.5} = \text{Rate Adjustment}$$

Employers receive a rate adjustment of 1% for each 2.5% variance from their rate group ratio. The adjustment may not exceed the maximum discount of 40% or the maximum surcharge of 80%. These limits provide incentive for employers to improve their claims experience, while ensuring that all employers support the ongoing costs of workers' compensation. Approximately half the registered employers have sufficient activity levels to participate in the experience rating program but only 3% of employers reach the 100% participation level and can see either the full 40% rebate or 80% surcharge. In fact, less than 40 employers will reach those limits in 2014. The average participation level for the 47% of employers that are partially experience rated is roughly 35%. At such a participation level, the maximum rebate would be 14% and the maximum surcharge would be 28%. The participation factor protects the smaller employer from larger rate swings. At their lower payroll levels, even a modest claim could cause their cost ratio to be much higher than their rate group's. Since their lower level of activity provides less credible experience, less weight is given to the rate adjustment.

# IV – OTHER CONSIDERATIONS

## FEDERALLY REGULATED EMPLOYERS

In 1988, the Supreme Court of Canada ruled that federally regulated employers such as out-of-province transportation companies were not subject to the provincial health and safety laws. Consequently, any direct or indirect assessment paid by these employers for services under the *Occupational Health and Safety Act* was deemed unconstitutional. As a result, all federally regulated employers receive a 4% rebate applied to their basic rate.

## SAFETY ASSOCIATIONS

Construction, forestry and nursing home industries sponsor independent safety associations that promote workplace safety through education and other initiatives. Once industries meet the requirements outlined in the *Workers' Compensation Act*, WorkSafeNB collects revenue on behalf of the safety associations through increased basic rates for all employers in the participating industries.

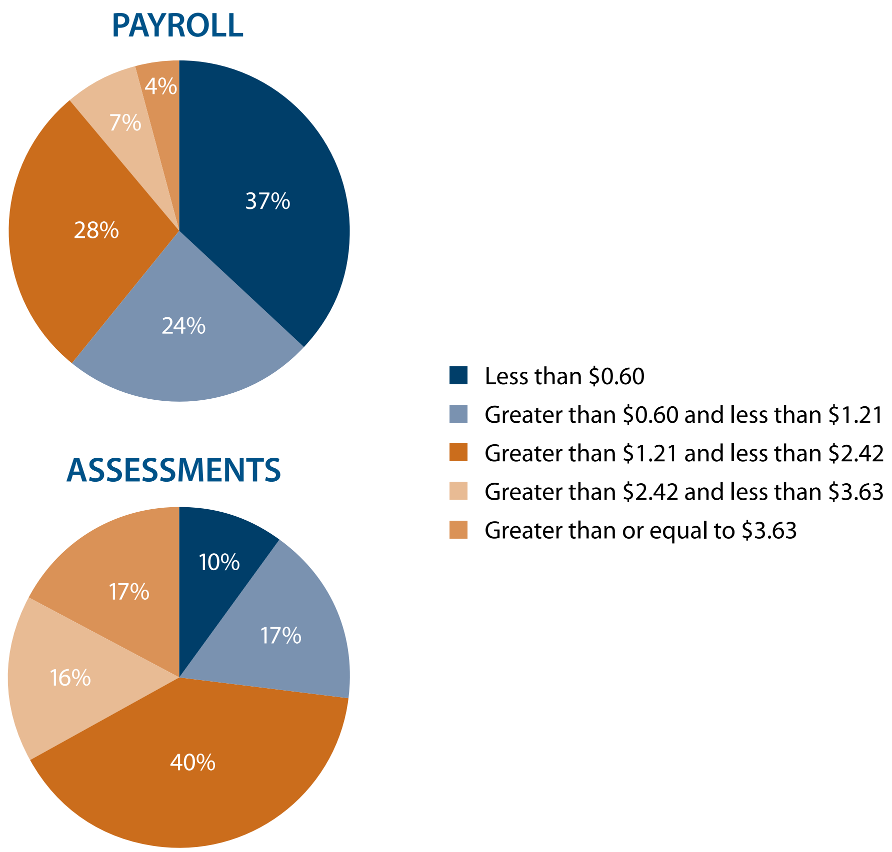
## SAFETY ACHIEVEMENT FINANCIAL INCENTIVE SYSTEM (SAFIS)

The board of directors approved SAFIS in July 2009, making the successful long-term pilot program a permanent one. Assessment rates for SAFIS participants are established in the same manner as the rates for all other employers. SAFIS is an additional level of experience rating available to large employers willing to take on more risk and responsibility for claim costs experience. Any employer paying over $500,000 in assessments may apply for participation in the program. Since the program can generate large refunds or surcharges, employers must provide proof of financial stability and may be required to pay an entry deficit before the application can be approved.

The SAFIS program does not have an impact on the overall revenue requirement.

# V – DISTRIBUTION OF ASSESSMENT RATES

Most employer rates will be very different than the $1.21 average rate. In fact, only 5% of employers will be charged between $1.11 and $1.31. Net rates range from $0.18 to $8.35. A large proportion of the province's workforce is employed in lower risk industries. While 61% of the payrolls reported are assessed below the average, they will only generate 27% of the revenue in 2014. On the other hand, while only 39% of payrolls are reported by employers with above average rates, they will generate 73% of revenues.




The $1.21 average rate approved by the board of directors represents a 16% decrease relative to the $1.44 budgeted rate for 2013. While most employers will enjoy lower rates in 2014, 8% will be subject to an increase in net rate including 1% of employers with an increase of 25% or more in their net rate. Most of the net rate increases are a result of experience rate increases as only 2% of employers are subject to basic rate increases. Some of these employers may be classified in higher risk industries as a result of a change in the nature of business activity or an audit uncovering a classification error. Rate changes resulting from reclassification at the employer level are not subject to any limits.