2017 ASSESSMENT RATES

FOREWORD

WorkSafeNB determines employers' assessment rates annually. Several factors influence rates:

- WorkSafeNB's current financial obligations
- The prevailing economic environment
- The cost of health-care services
- Claims adjudication and benefit policies and practices
- Legislation
- Injury frequency and severity
- Workplace prevention and return-to-work initiatives
- Changes in New Brunswick's business profile.

Each year's assessment rates must generate enough revenue to cover all current and future costs associated with that year's workplace injuries, including health care, rehabilitation and wage replacement benefits. In addition to accident-related expenses, the assessment rates must also cover all expenditures for safety and prevention programs and all administrative expenses, and may include a funding adjustment to account for prior year deviations.

The declining funding position and increasing claim costs associated with recent benefit policy changes are the main factors that influenced the board of directors to increase the average assessment rate. For 2017, the average rate per $100 of assessable payroll will be $1.48, a 33% increase from the 2016 average rate of $1.11.

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, some of the statistics presented will differ from those in the annual report, 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 2016

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I – AVERAGE ASSESSMENT RATE

The assessments collected each year must meet WorkSafeNB's financial obligations as defined under the *Workers' Compensation 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. The following table details the total projected required revenue and assessable payroll for 2017, along with the resulting rate per $100 of assessable payroll.

Required Revenue Projection	**in millions**	**per $100 payroll**
Cost of Benefits for 2017 Injuries and Exposures	$ 98.7	$ 1.09
Administration and Prevention Costs	$ 50.2	$ 0.55
2016 Benefit Changes	$ 5.4	$ 0.06
Target Funding Level Adjustment	$ (20.4)	$ (0.23)
Total Required Revenue*	**$ 134.0**	**$ 1.48**
Assessable Payroll Projection	**$ 9,060 million**	

*Small differences in total due to rounding

Assessable Payroll Projection

Each worker's annual payroll must be reported up to $62,700, the maximum assessable payroll amount for 2017, a 1.4% increase over 2016. The Conference Board of Canada predicts 2.1% overall wage inflation for New Brunswick workers in 2017 and 0.4% growth in the workforce. Assessable 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 such as the opening/closure of a large employer, major construction projects, etc. Forecasting changes in the types of business activities in the province can also help predict changes in claim levels.

As with any forecasting process, deviations from the projection will occur. Both costs and assessments collected are influenced by employment levels. As a result, a deviation between actual and expected payrolls and resulting assessments collected are usually offset, at least partially, by deviation in claims.

	2017
Assessable Payroll Projection in millions	**$ 9,060**

Required Revenue Projection

The assessment revenue required by policy and legislation must cover the projected cost of benefits for accidents occurring in 2017, the estimated administration costs from the approved budget and the long-term funding provision required by policy.

COST OF BENEFITS

Assessments collected must fully fund the injury costs expected to occur in the assessment year, including all future costs associated with these injuries and any exposure that may lead to occupational diseases. For a young injured worker, some payments could continue for the next 80 years. Actuarial forecasts project the aggregate cost based on current WorkSafeNB practices, as well as New Brunswick's current economic and claim trends. Forecasts would also consider benefit changes due to approved legislative and policy amendments. Events may not materialize as assumed under changing economic conditions. Furthermore, the future could bring additional changes in fee levels, policies and/or practices that were not taken into account when this report was prepared. For example, decisions by the Workers' Compensation Appeals Tribunal (WCAT) or the New Brunswick Court of Appeal could lead to variations in actual versus projected results.

Claim cost projections are primarily based on past year results with analysis of recent trends and any known changes in fee levels, policies, procedures, etc. Trends can be 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 accident year. As well, billing and payment delays can mask an emerging trend. History has shown that some cost increases or decreases in a given year are only temporary fluctuations. Generally, at least three years of data is needed to confirm trends.

CHANGES IN LEGISLATION AND POLICIES

Effective April 1, 2015, WCAT rulings can lead to policy changes. Recent decisions have resulted in policy changes that will increase benefits for injured workers who also receive Canadian Pension Plan Disability (CPPD) benefits. These decisions have an estimated $33.0 million impact on liabilities for prior year accidents, resulting in a $0.05 increase in assessment rates over the eight-year amortization period. These decisions will also increase rates by an additional $0.01 for new accidents each year.

Other recent policy changes resulting from WCAT decisions were considered for the 2015 year-end financial results. These included:

- Further limiting the revenue sources considered supplemental income
- Removing the impact of negative interest on annuity set-asides
- Expanding coverage for non-injury related intervening conditions
- Increasing home modification provisions

The estimated impact of these policy changes on the liabilities reported at December 31, 2015 was $53.6 million. For the assessment rate, the impact for prior year accidents would be $0.07 over the eight-year amortization period, plus an additional $0.02 for new accidents each year. Because the impact of these changes was reflected in the 2015 financial statements, they are not included in the summary table below. They are captured in the ongoing claims costs and funding-level adjustment presented in later sections.

On June 28, 2016, Bill 39 (Act to Amend the *Workers' Compensation Act*) was granted Royal Assent by the New Brunswick Legislature. The legislation allows post-traumatic stress disorder for first responders to be presumed work related. Bill 39 aligns closely with current practice requiring a diagnosis from a psychiatrist or psychologist. Additional costs are, therefore, expected to be minimal for assessed employers. Any additional costs related to paramedics or RCMP would not impact assessed employers, as they are covered on a self-insured basis.

2016 Benefit Changes in millions	**2017**
New Accident Costs	$ 1.3
Provision for Prior Years' Funding	$ 4.1
Total	**$ 5.4**

WAGE REPLACEMENT AND REHABILITATION

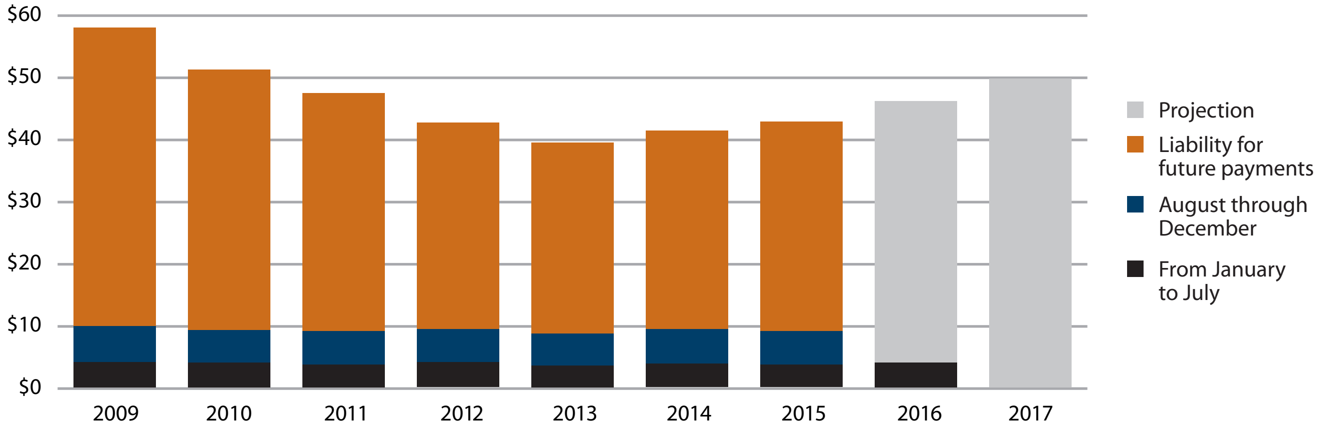
The chart below illustrates actual costs from January to July of the given accident year in black, and costs from August to December in blue. The larger portion of costs, presented in orange, represents the accident year's projected liability based on information available at the end of the accident year. The declining costs through 2013 reflect the decreasing claim frequency. The number of claims receiving wage replacement benefits in a given accident year declined 20.1% between 2009 and 2013, an average of 5.5% per year. WorkSafeNB processed only 2,291 such claims in 2013, compared to 2,867 in 2009.

In 2015, WorkSafeNB recorded 2,341 wage loss claims through December, a 2.2% increase over 2013 levels. The duration of wage loss for those claims was on average 1.6% longer. As well, policy changes, outlined in the previous section, now allow for higher benefit levels for some claimants. A number of reasonable assumptions were used to develop the preliminary forecasts for 2015 and 2016. Experience continues to be monitored and next year's estimates will be revised as trends emerge.

More recent statistics show a 0.8% increase in the number of claims and a 12.6% increase in average duration of 2016 claims from January to July relative to 2015. However, it is still unclear how costs will mature through the end of the year. A range of projections was developed for 2016 and 2017, factoring in inflation and latest claim trends. Projections reflecting 2015 claim patterns are illustrated in grey in the following chart. Wage replacement for 2016 claims is expected to cost 7.7% more than for 2015 claims, with an additional 8.0% increase in 2017.

NEW ACCIDENT COSTS

Wage Replacement and Rehabilitation (in millions)



HEALTH CARE

Similarly, the following chart illustrates 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 the 2010 valuation of liabilities. Costs returned to normal levels in 2011 and projections had remained stable until 2014, when a rise in the number of hearing loss claims significantly increased costs.

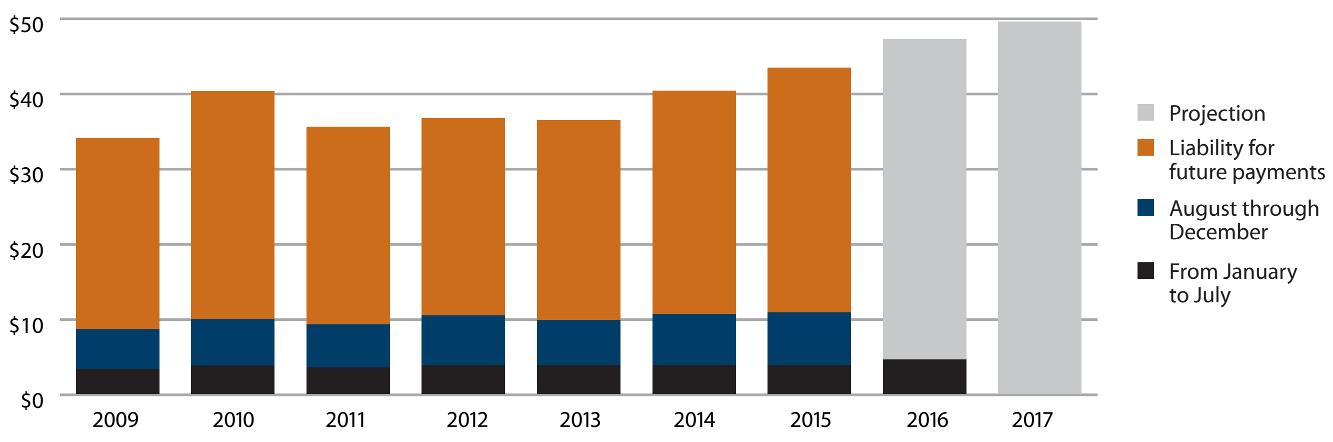
WorkSafeNB covers all health-care expenses, including medical appointments, hospital stays and prescriptions. It is difficult to predict exactly which medical treatments injured workers will need and how much those treatments will cost, especially with increasing fees and potentially costly advances in medical technology.

The number of accidents requiring health-care services has remained stable since 2009, with the exception of 2012. That year saw 9,400 worker injuries processed, compared to about 9,000 in all other years. Over the same period, the payment per claimant has increased 26.5%, or 4.0% per year.

Health-care expenditures from January to July of 2016 showed a 10.3% increase relative to the same time period in 2015. The number of injured workers receiving treatment increased 3.8% while payment per claimant increased by 6.2%. A range of projections was developed for 2016 and 2017 assuming growth in the claim numbers and inflation assumptions. Projections assuming increased frequency and higher usage and fees are illustrated in grey in the chart below.

NEW ACCIDENT COSTS

Health Care (in millions)



Over the past decade, seven workers on average die annually from workplace accidents. An amount of $0.9 million will be collected in 2017 to cover estimated benefits for dependent survivors.

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 optimistic projections or higher than conservative projections. The revenue requirement projection reflects the increasing cost of 2015 claims for wage loss and anticipated growth in health-care costs.

Estimated Cost of Benefits in millions	**2017**
Wage Replacement and Rehabilitation	$ 48.3
Health Care	$ 49.5
Survivor Benefits for Fatal Injuries	$ 0.9
Total	**$ 98.7**

ADMINISTRATION AND PREVENTION COSTS

WorkSafeNB is committed to excellence in service, safety and prevention. 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 costs for the management of prior years' claims. Some of the current administration expenses were covered by prior years' assessments. On the other hand, new accident costs must include a provision for future administrative expenses of current year accidents.

	2017
Administration and Prevention Costs in millions	**$ 50.2**

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 average annual rate of return of 6.08% will be earned over long periods of time, financial markets are impossible to predict over the short to medium term. In some years, the fund may grow by much more than 6.08% while, in other years, it may grow by much less or may even shrink. In 2015, investments earned 4.3%, bringing WorkSafeNB's invested assets to $1.29 billion as valued on December 31, 2015.

While liabilities may not be as volatile as investment returns from year to year, they too can generate significant gains and losses. Each year, using past experience, actuaries estimate the current value of all future obligations to injured workers as of December 31. As claims mature and benefits change, the estimates are revised annually with the most up-to-date information available.

Transition toward 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 reported financial results for December 31, 2016.

When WorkSafeNB's funding position is in a deficit, 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. Assets were in excess of liabilities by $286.6 million by the end of 2015. The resulting funded ratio of 123.2% is well above both the legislated requirement of 100% and the funding policy target of 110%. Therefore, the 2017 average assessment rate includes a reduction of $20.4 million, equivalent to $0.23 per $100 of assessable payroll on the average rate. Some of the 2017 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 to make up the shortfall.

	2017
Target Funding Level Adjustment in millions	**$ (20.4)**

II - CLASSIFICATION

Instead of taking a 100% collective liability approach, where all employers would be assigned the same average assessment rate, WorkSafeNB assigns different assessment rates to employers based on the risks associated with their industry. This system promotes fairness and accountability, while creating incentives for firms to improve their occupational health and safety practices and performance.

Cost ratios are used to compare industries and identify trends. They include five-year new accident costs divided by the assessable payroll reported over the same period. Five-year new accident costs include all payments, up to $125,000 per claim, for the accidents that have occurred in the last five calendar years. Since the 2017 assessment rates are calculated in 2016, the five-year period spans from 2011 to 2015. Because all fatalities are serious, even though some may be relatively inexpensive, all fatalities are charged a cost of $125,000 for the purpose of rate setting.

The three-stage process for classifying employers into rate groups is outlined below.

INDUSTRIES

Employers are assigned to one of 790 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 75 industry groups. Usually, sequential NAICS codes are grouped together and efforts are made to avoid dominance of a single employer. Ideally, each industry group 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.

Classification is a fundamental building block for all subsequent calculations in the process. The rate groups' historical experience relative to others is used to determine appropriate assessment rates so that employers pay their fair share of benefit costs over time. While industries will occasionally be classified into a different industry group and/or rate group if their accident experience changes, the objective is to maintain a balance between stability and responsiveness, with changes made only when warranted by a continued improvement or deterioration in cost experience.

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. Employer assessments are calculated by multiplying the net rate by annual assessable payroll divided by $100, subject to a $100 minimum assessment amount.

Basic Rate

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

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 accounts for a given percentage of total claim costs and assessable payroll. A balanced rate group, accounting for a similar percentage of overall costs and assessable payroll, will have a basic rate similar to the average assessment rate. Alternatively, a higher risk rate group with a percentage of costs twice the percentage of its assessable payroll will pay twice the average rate. The 2017 basic rates for the 19 rate groups will range from $0.30 to $4.90. 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 for individual employers from year to year. If a large change in a basic rate results from classification into a different industry group or rate group, annual transition limits continue to be applied until the group's basic rate is reached. Basic rate changes are limited to 20% in addition to the percentage change in the average assessment rate. Given the 33% increase in the average assessment rate, most industries moving toward a lower rate group will be subject to lower rate increases of 13%. On the other hand, most industries moving toward higher rate group will be limited to the greater of 53%, or $0.20 on the assessment rate. This may be seen as producing a less responsive system; however, the review of all industry groups each year limits the risk of employers paying an assessment rate that does not reasonably reflect current accident experience for their industry. As well, large industries that have credible experience are generally in their own rate group and are not subject to reclassification. The basic rate of an employer reclassified because of a change in the nature of business activity or an audit uncovering a classification error is not subject to any transition limits.

Experience Rate

Basic Rate	x	Participation Factor	x	Rate Adjustment	=	Experience Rate

Experience rating is designed to improve employer awareness of the importance of workplace safety and to achieve greater equity through rewards and penalties based on the employer's own cost experience relative to their assigned rate group. Unlike the basic rate calculation that uses a five-year exposure period, only the three most recent years are included for experience rating. Payments, up to $62,500 per claim, are included for claims from 2013, 2014 or 2015. Fatalities are assigned $62,500 for the purpose of experience rating regardless of the actual cost of the claim. 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 so that no significant 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

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

The participation factor, ranging from 25% to 100%, determines the weight assigned to the employer's experience. It protects the smaller employer from larger rate swings because, at their lower assessable payroll levels, even a modest claim could cause their cost ratio to be much higher than their rate group's. The minimum qualifying average assessment of $2,000 will result in a 25% participation factor. This factor increases 1% for every additional $750 in average assessments, up to a maximum of 100% reached when assessments exceed $58,250.

RATE ADJUSTMENT

$$\left(\frac{\text{Employer's Cost Ratio}}{\text{Rate Group's Cost Ratio}} - 1 \right) / \ 2.5 = \text{Rate Adjustment}$$

Employers receive a rate adjustment of 1% for each 2.5% variance from their rate group 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 benefit from 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.

The adjustment may not exceed the maximum discount of 40% or the maximum surcharge of 80%. These limits provide reasonable incentive for employers to improve their claims experience, while ensuring that all employers support the ongoing costs of the workers' compensation system.

About half of the registered employers participate in the experience rating program. Few employers reach the 100% participation level and are eligible for the full 40% rebate or 80% surcharge. The average participation level is 37%. At such a participation level, the maximum rebate would be 15% and the maximum surcharge would be 30%.

Distribution of Assessment Rates

Most employers' assessment rates will be considerably different than the $1.48 average rate. In fact, only 2% of employers will be charged between $1.38 and $1.58. Net rates range from $0.18 to $8.44. Given the $0.37 (33%) increase in the 2017 average assessment rate from the 2016 level, only 160 (1%) employers will see a rate reduction. Meanwhile, 6,230 (44%) employers will see a rate increase of less than 33%, while the remaining 7,930 (55%) will see a net rate increase of 33% or more.

IV – OTHER CONSIDERATIONS

Federally Regulated Employers

In 1988, the Supreme Court of Canada ruled that federally regulated employers, such as interprovincial 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 continuing care 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.