



WSIB **2006**
Premium
Rates **MANUAL**

SECTION 1

Introduction



Workplace Safety &
Insurance Board

Commission de la sécurité
professionnelle et de l'assurance
contre les accidents du travail

INTRODUCTION

a. 2006 Premium Rates Summary

In September 2005, the Board of Directors of the Workplace Safety and Insurance Board (WSIB) approved the average premium rate for 2006 of \$2.26 for every \$100 of insurable earnings. Final rate group premium rates were set for employers according to their business activity – taking into account injury frequency and average costs per claim for individual rate groups.

This is only the second time in the last 11 years that the WSIB has raised the average premium rate. For the period from 1995 to 2005, the average premium rate paid by Ontario employers declined 27% from \$3.00 to \$2.19. However, premiums have failed to keep up with rising costs, and the unfunded liability has risen. The WSIB now has the highest unfunded liability and the lowest funding ratio of any Canadian jurisdiction. The Board of Directors' decision comes after careful consideration of the system's funding position, market conditions in the economy and feedback from employer and worker communities.

Leading up to the 2006 premium rates, the WSIB held several information/working sessions for employer and worker representatives covering the WSIB funding, premium rates, and experience rating programs, as well as other aspects of the workplace safety and insurance system. In this open and transparent process, employers and employer associations had the opportunity to understand the considerations and pressures affecting the WSIB's funding and to provide input into the decision-making process.

In July 2005, the Board of Directors approved a new Funding Framework document which was posted on the WSIB website, and approved the preliminary 2006 premium rates. After announcing the preliminary premium rates, the WSIB held information sessions for employers of those rate groups receiving the largest increases, in order to facilitate business planning for 2006, and to receive feedback on the preliminary premium rate decision.

There are many things employers can do to help lower their premium rates. Unsafe workplaces lead to more injuries and illnesses, and return to work delays mean higher claims costs. These, in turn, contribute to premium rate increases. Many Ontario

workplaces help to mitigate the effects of rising claim costs and other financial pressures on premium rates through improvements in workplace health and safety, and return to work programs. Employers in rate groups with improved workplace health and safety and lower claim costs saw their 2006 premium rates either go down or up less than the average increase.

Employers are encouraged to contact their WSIB Account Managers or Customer Service Representatives for more information about making their workplaces healthier and safer, and about implementing effective return to work programs.

b. The Role of the Workplace Safety and Insurance Board (WSIB)

The WSIB plays a key role in the province's occupational health and safety system. The WSIB administers no-fault workplace insurance for employers and their workers and is committed to the prevention of workplace injuries and illnesses and the facilitation of effective return to work practices. The WSIB provides disability benefits, monitors the quality of healthcare, and assists in early and safe return to work for workers who are injured on the job or contract an occupational disease.

The WSIB is a statutory corporation created by an Act of the Ontario Legislature in 1914. The WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997*.

Employers covered by the *Workplace Safety and Insurance Act, 1997*, are divided into two groups, referred to as "Schedule 1" and "Schedule 2." Schedule 1 employers are insured under a "collective liability" system, and are required to contribute to the WSIB Insurance Fund. Schedule 2 employers are "self-insured," and are individually liable for the full costs of their workers' claims. The WSIB pays insurance benefits for Schedule 2 workers and is reimbursed by their employers for the costs of the claims (including administrative costs), and for the cost of the WSIB's prevention activities.

The WSIB receives no government funding. WSIB revenue must cover all costs associated with both new and existing claims. Revenue is raised through premiums, which are collected from all Schedule 1 employers covered under the *Workplace Safety and Insurance Act, 1997*, and from earnings from the invested assets of the insurance fund.

This *Premium Rates Manual* pertains only to Schedule 1 and not to Schedule 2 because it is only Schedule 1 employers who are charged WSIB insurance premiums.

c. Funding Framework

The WSIB's approach to funding is flexible and responsive, with reviews that ensure premium rates are adjusted according to the success of its funding strategies. This helps the WSIB to have stable and predictable rates while protecting the ongoing financial viability of the system.

Currently the WSIB has an unfunded liability, which means that sufficient funds are not available to pay for the full life of all the claims currently in the system. Although the unfunded liability is at a significantly lower level than its 1993 peak of \$11.5 billion, it has grown over the past three years from a low of \$5.7 million as of the end of 2001 to \$7.7 billion as of the end of 2004, as described in the WSIB Funding Framework document.

The unfunded liability must be dealt with. It is essential to the long-term financial stability of the system that the debt load not be passed on to future generations of employers and workers. Consequently, the WSIB Funding Framework reaffirms the WSIB's commitment to the elimination of the unfunded liability by 2014 as a key funding principle.

The purpose of the WSIB Funding Framework document is to formalize the funding strategy of the WSIB, to describe the criteria for projecting funding requirements and to set the basis for determining premium rates. It provides a planned and disciplined approach to managing the risks and uncertainties that may result from financial pressures on the system, such as rising health care costs, fluctuations in investment returns and escalating costs of existing claims. As well, it describes the WSIB's key funding principles :

- Collective liability
- Equity among generations of employers and workers
- Financial prudence and sustainability
- Stable and predictable premium rates
- Retirement of unfunded liability
- Ease of administration, communication and understanding

With respect to stable and predictable premium rates, for example, the document sets out rules for premium rate increases :

- The average premium rate will not increase in any year by more than 3% to 5%.
- At the rate group level, premium rates will not increase by more than 10% over the average rate change for 95% of all rate groups. This means that a 3% increase in the average premium rate would translate into maximum increase of not more than 13% (i.e. 3% plus 10%) for 95% of the rate groups. Although rate group level premium rates would continue to increase or decrease depending upon worsening or improving experience of individual rate groups, this rule provides a measure of premium rate stability for most employers.

To view the WSIB's "Funding Framework", please visit the WSIB website at www.wsib.on.ca.

d. Derivation of the 2006 Premium Rates

The Schedule 1 costs of the workers' compensation system are funded through premium rates being applied to the payroll of Schedule 1 employers. However, employers are not all charged at the same rate. Rather, for the purpose of charging them on a more equitable basis, employers have been classified into the rate groups defined under the WSIB's classification scheme, with each rate group having a different premium rate which reflects the inherent risk of the particular services or industries insured within that rate group.

The classification scheme maintained by the WSIB currently divides the services and industries insured under Schedule 1 into nine broad classes, which are further subdivided into 157 rate groups based on similarity of business activity and relative risk. The number of rate groups has not changed for 2006. More information about classification scheme changes can be found in Section 8 of this manual. Additional details about the classification scheme itself can be obtained from the WSIB's *Employer Classification Manual*.

For each of the classes and rate groups defined in the classification scheme, the WSIB prospectively derives a premium rate to cover costs relating to the upcoming 2006 premium year. These costs include:

- a) The expected future benefit costs and claims administrative expenses of new claims for the premium year,

- b) The WSIB's administrative expenses, accident prevention costs, and other statutory obligations for the premium year,
- c) The charge towards retiring the WSIB's unfunded liability in accordance with the WSIB's Funding Framework, and
- d) The gains and losses component, which takes into account the actual claims cost experience of a class, as compared to what was originally priced in specific accident years. For the 2006 premium rates, the gains and losses component reflects actual experience in accident years 2000 through 2004.

Premium rates are determined annually on an actuarial basis and are expressed as a dollar amount per \$100 of insurable earnings.

Nine broad industry classes play a significant role in rate setting, because it is at the class level that certain cost items are estimated using data and assumptions particular to each class. Once the class estimates are determined, corresponding estimates are derived for the rate groups in each class. 2006 premium rates are based on claims experience and insurable earnings data for the most recent five years. That is, for the period from 2000 through 2004 inclusive.

There are many assumptions in determining premium rates for the classes, including assumptions that relate to the economy. For instance, changes in the level of employment and earnings of a class are two factors that can influence the insurable earnings base of that class. The source of the economic assumptions used in rate setting is the WSIB's economic forecast.

Each year, the WSIB prepares an economic forecast for each of the nine classes based on a variety of inputs including an economic outlook from *Informetrica*. This outlook is not only for the Ontario economy as a whole, but is specifically tailored to those sectors of the provincial economy insured under the nine classes defined for Schedule 1. This information is further modified with input from WSIB sector directors and account managers. The class-by-class economic assumptions from the WSIB's forecast are shown below.

Economic Assumptions Supporting The 2006 Premium Rates				
Class	Earnings Growth 2004-2005	Earnings Growth 2005-2006	Employment Growth 2004-2005	Employment Growth 2005-2006
Class A: Forest Products	2.50%	0.90%	1.80%	0.20%
Class B: Mining and Related Industries	1.10%	1.10%	2.10%	2.10%
Class C: Other Primary Industries	3.70%	3.90%	-0.10%	-0.60%
Class D: Manufacturing	2.60%	0.60%	1.60%	2.50%
Class E: Transportation And Storage	1.40%	0.70%	3.70%	1.60%
Class F: Retail and Wholesale Trades	2.20%	2.50%	2.60%	1.90%
Class G: Construction	3.20%	1.50%	3.30%	2.80%
Class H: Government and Related Services	1.50%	1.80%	2.30%	1.60%
Class I: Other Services	2.30%	1.80%	2.20%	2.00%
Schedule 1	2.20%	1.50%	2.30%	2.00%

e. Classification Scheme and Data Sources

As mentioned previously, Schedule 1 employers are divided into nine broad classes (denoted by class codes A through I). Employers within each class are then subdivided into rate groups. The grouping of employers within a single rate group is based on similarity of business activity and/or relative risk. The number of rate groups in each class varies according to the size of the class. For example, Class B *Mining and Related Industries* contains four (4) rate groups, whereas Class D *Manufacturing* contains seventy-six (76) rate groups.

Rate groups are further divided into classification units. Classification units are used as a means of tracking the relative experience of various employer subgroups. Firms in a classification unit share similar business activities or relative risk. All employers within a single rate group, no matter which classification unit they belong to in that rate group, are charged the same premium rate (before any merit-adjustments or experience rating).

The Classes referred to in this manual should not be confused with the various WSIB Service Delivery Sectors. In order to better address the unique needs of its customers, the WSIB has divided its Service Delivery Division into “Sectors” (including Schedule 2 employers). The WSIB recognizes that different Sectors are affected differently by workplace injuries – each has its own unique situations and concerns. For example, the factors affecting the Forestry sector may be markedly different from those affecting the Services sector. WSIB staff become specialists in the particular sector in which they work – this streamlines the workflow and ensures that each employer and employee is assisted by a WSIB employee who has expertise in that industry.

The figures shown in the Supporting Documentation sections of this manual are based on the data available in the spring of 2005. Employers may obtain more recent information by calling the Employer Client Call Centre of the WSIB, where calls will be redirected to the appropriate WSIB department (see Section 11 of this manual for further contact information).