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Policy and Research Division

Mailing Address

PO Box 5350 Stn Terminal
Vancouver BC V6B 5L5

Location

6951 Westminster Highway
Richmond BC

Telephone 604 276-5160
Fax 604 279-7599

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Update 2009 – 1

TO: HOLDERS OF THE ASSESSMENT MANUAL

This update to the *Assessment Manual* contains amendments to the *Manual* implemented since Update 2008 – 2.

Amendments to the following are **effective January 1, 2009**:

- AP1-37-1, *The Classification System*
- AP1-37-2, *Classification – Multiple Industrial Activities*
- AP1-42-1, *Experience Rating*
- AP1-42-3, *Transfer of Experience Between Firms*

A summary of the amendments is attached and the amended pages are included as part of this package.

If you have any questions regarding subscription information for updates to the *Assessment Manual*, please contact WorkSafeBC Customer Service at the following:

Local phone: 604-232-9704
Toll-free: 1-866-319-9704

Local fax: 604-232-9703
Toll-free fax: 1-888-232-9714

Roberta Ellis
Vice President
Policy and Research Division

Attachments

ASSESSMENT MANUAL

SUMMARY OF AMENDMENTS – Update 2009 – 1

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Where a firm's operations are divided so that part is within BC and part is outside of BC, the firm will be classified according to the business of the operations conducted within BC.

(c) Subsectors

The purpose of subsectors is to provide boundaries within which classification units are grouped with other similar classification units based on industrial undertakings.

(d) Sectors

Sectors are large categories of subsectors that are involved in a similar area of the economy at the broadest level.

PRACTICE

For more information on the classification system, readers should consult the WCB website at <http://www.worksafebc.com/insurance/premiums/classification/default.asp>.

For any other relevant PRACTICE information, readers should consult the Assessment Department's Practice Directives available on the WorkSafeBC website at www.worksafebc.com.

EFFECTIVE DATE:	October 1, 2007
AUTHORITY:	ss. 37(1) and 37(2), <i>Workers Compensation Act</i> .
CROSS REFERENCES:	See also Classifications – Multiple (AP1-37-2) and Classification – Changes (AP1-37-3) and Assessment Rates (AP1-39-1) in the <i>Assessment Manual</i> .
HISTORY:	Updated effective October 1, 2007 to reflect the Board's authority to classify firms. This Item results from the 2002 "editorial" consolidation of all assessment policies into the <i>Assessment Manual</i> . The POLICY in this Item continues the substantive requirements of the policies and items referred to in the HISTORY as they existed prior to the Effective Date, with any wording changes necessary to reflect legislative and other changes since the policies and items referred to in the history were issued. Replaces in part Policies No. 30:10:00 and 30:20:10 of the <i>Assessment Policy Manual</i> and Decision No. 58 in volumes 1 - 6 of the <i>Workers' Compensation Reporter</i> . Consequential changes were subsequently made in accordance with the <i>Workers Compensation Amendment Act (No. 2), 2002</i> .
APPLICATION:	Applies on or after October 1, 2007.

RE: Classification – Multiple Industrial Activities**ITEM: AP1-37-2**

BACKGROUND

1. EXPLANATORY NOTES

Usually, when a firm registers with the Board, the firm is assigned to a single classification unit based on the industry in which it is operating. On occasion the firm's business operations may involve more than one industrial activity, or the firm may, after the initial registration, become involved in another industrial activity. In either of these situations, the Board determines which classification unit is assigned to the whole of the firm's business operations or whether more than one classification unit should be assigned. The multiple classification policy assists in determining the circumstances in which a firm is assigned to more than one classification unit.

2. THE ACT

Section 37:

- (2) The Board may do one or more of the following:
- (a) create new classes in addition to those referred to in subsection (1);
 - (b) divide classes into subclasses and divide subclasses into further subclasses;
 - (c) consolidate or rearrange any existing classes and subclasses;
 - (d) assign an employer, independent operator or industry to one or more classes or subclasses;
 - (e) withdraw from a class
 - (i) an employer, independent operator or industry;
 - (ii) a part of the class; or
 - (iii) a subclass or a part of a subclass;and transfer it to another class or subclass, or form it into a separate class or subclass;
 - (f) withdraw from a subclass

- (i) an employer, independent operator or industry,
 - (ii) a part of the subclass, or
 - (iii) another subclass or part of another subclass,
- and transfer it to another class or subclass or form it into a separate class or subclass, and
- (3) If the Board exercises authority under subsection (2), it may make the adjustment and disposition of the funds, reserves and accounts of the classes and subclasses affected that the Board considers just and expedient.

Section 42:

The Board must establish subclassifications, differentials and proportions in the rates as between the different kinds of employment in the same class as may be considered just

POLICY

A firm is assigned to a single classification unit unless the firm qualifies for multiple classification in accordance with this policy.

1. ASSIGNMENT OF MULTIPLE CLASSIFICATIONS

1.1 Policy Intent

The intent of the multiple classification policy is to support the purpose of the classification system, which is to classify firms into groups that can be used to set fair and equitable base rates. Towards this purpose, the multiple classification policy is designed to ensure that firms who operate in more than one industry:

- are of sufficient size to be a significant competitor with other firms operating in each such industry;
- are assigned to the classification units representing those industries; and
- pay the same base assessment rates as their competitors.

1.2 Responsibility for Obtaining Multiple Classification

It is the responsibility of each firm to apply to the Board for a multiple classification, or to remove a multiple classification designation, when the firm's business operations

change. The Board may, however, based on available information, assign more than one classification unit to a firm.

1.3 Multiple Classification Criteria

For a firm to qualify for more than one classification unit, the industrial activities identified for separate classification must be distinct and independent. To demonstrate this requirement, the following criteria must be satisfied:

- (a) Each industrial activity must be separate so that it does not contribute to the risk of injury or occupational disease in another industrial activity of the firm. The Board may consider this requirement to be met for the purpose of this policy if the industrial activity under consideration for a separate classification is:
 - performed by specific personnel as their sole employment function at any one time, and no personnel are engaged in more than one industrial activity simultaneously; or
 - conducted at a separate location from other industrial activities of the firm; or
 - conducted at the same location as other industrial activities of the firm, but at a different time.
- (b) The industrial activity in question must not simply be to assist, support or service the firm's main industry. This means that multiple classification will not normally be granted for such activities as administration, accounting or marketing. (However, there may be circumstances when such activities do not simply exist to assist, support or service the main industry.)
- (c) At least 50 percent of the product or service from the industrial activity, measured by the volume of the annual output or the revenue from the annual output, must be sold to unaffiliated customers or clients who operate at arm's length.
- (d) Each industrial activity must meet at least one of the following conditions:
 - generate an annual assessable payroll of at least four times the maximum wage rate; or
 - generate an annual assessable payroll that is at least 25 percent of the gross annual assessable payroll of all the firm's industrial activities; or

- generate an annual revenue that is at least 25 percent of the gross annual revenue of all the firm's industrial activities.

There are other limited circumstances in which the Board has assigned more than one classification unit to a firm. These include the following:

- classification within the fishing industry;
- classification of non-industrial building construction not associated with the firm's main industry;
- classification of the activities of owners or occupiers at a private residence as set out in Item AP1-2-1, *Exemptions from Coverage*;
- classification of companies managing other companies with common shareholders as set out in Item AP1-38-3, *Payroll – Principles for Determining*; and
- classification of activities in any classification unit designated as a special hazard as set out in section (3) of this policy.

Where a firm is assigned more than one classification unit, any of the firm's industrial activities that do not qualify for their own classification unit are assigned to the classification unit with the highest assessment rate in accordance with section (2) of this policy.

2. ASSIGNMENT OF A SINGLE CLASSIFICATION TO FIRMS OPERATING IN MORE THAN ONE INDUSTRY

If a firm is operating in more than one industrial activity but does not qualify for multiple classification, then the firm will be classified as follows:

- (a) if one or more industrial activity represents at least 25 percent of the firm's business operations, in the classification unit that has the highest assessment rate and represents at least 25 percent of the firm's business operations,
- (b) if no industrial activity represents at least 25 percent of the firm's business operations, in the classification unit coming closest to the 25 percent figure, and
- (c) in the case of two or more industrial activities representing the same percentage coming closest to the 25 percent figure, in the classification unit with the highest assessment rate.

In determining what constitutes 25 percent of the firm's business operations, the Board first considers revenue, however, payroll, units of production and/or any other measure which best represents a true picture of the firm's business operations may also be used.

3. ASSIGNMENT OF SPECIAL HAZARD CLASSIFICATION

Activities in any classification unit designated as a special hazard classification unit in the annual *Classification and Rate List* may attract higher assessment rates.

The preceding classification criteria do not apply to activities in a special hazard classification unit. Instead, the following policies apply:

- the Board classifies and treats an activity in a special hazard classification unit as distinct and independent; and
- the Board assesses the payroll for the activity in a special hazard classification unit at the rate specified for the classification unit in the annual *Classification and Rate List*, adjusted by experience rating as appropriate.

4. OTHER CONSIDERATIONS

4.1 Personal Optional Protection

The multiple classification criteria outlined above do not apply to individuals with Personal Optional Protection. Instead, the classification rules set out in section (2) of this policy apply.

4.2 Effective Dates

The addition or deletion of a classification unit in accordance with this policy is a change in classification. For guidance concerning the effective date of a change in classification, see Item AP1-37-3, *Classification – Changes*.

4.3 Notification

A firm must be informed when a classification has been added to or deleted from the firm's account.

PRACTICE

Practice Directives provide more information regarding the criteria by which an employer may be assigned to more than one classification. For any other relevant PRACTICE information, readers should consult the WorkSafeBC website at www.worksafebc.com.

EFFECTIVE DATE:	January 1, 2009
AUTHORITY:	ss. 37(2) and (3) and 42, <i>Workers Compensation Act</i> .
CROSS REFERENCES:	See also The Classification System (AP1-37-1), Fishing (AP1-4-1), Exemptions from Coverage (AP1-2-1), Classification – Changes (AP1-37-3) with respect to management/administrative payroll, Payroll – Principles for Determining (AP1-38-3) in the <i>Assessment Manual</i> .
HISTORY:	<p>Amended in 2009 to clarify policy regarding the assignment of more than one classification unit when a firm that does not meet the multiple classification criteria, and the assignment of a single classification to firms operating in more than one industry. The 2009 amendments also removed the list of activities designated for special hazard classification and added a reference to the annual <i>Classification and Rate List</i>.</p> <p>The policy changes with respect to Personal Optional Protection apply to all existing Personal Optional Protection accounts, all new Personal Optional Protection coverage registrants, and all registrants who reapply for coverage, on or after January 1, 2004. The policy changes with respect to effective dates of classification changes, apply to all new decisions on or after January 1, 2004.</p> <p>This Item resulted from an editorial consolidation of the former <i>Assessment Policy Manual</i>, which was effective on January 1, 2003. The Policy in this Item continued the substantive requirements that existed before the consolidation, with any wording changes necessary to reflect legislative and other changes that had occurred. Policies No. 30:20:20, 30:20:21 and 30:20:30 in the former <i>Assessment Policy Manual</i> were replaced, in part, by this Item.</p> <p>Consequential changes to this Item made as a result of the <i>Workers Compensation Amendment Act (No. 2), 2002</i> were effective on March 3, 2003.</p>
APPLICATION:	Applies to all decisions made on or after January 1, 2009.

RE: Experience Rating**ITEM: AP1-42-1**

BACKGROUND

1. EXPLANATORY NOTES

Experience rating is a means of adjusting individual employers' assessment rates to reflect their actual claims cost experience. Employers whose experience is better than their rate group average receive a discount. Employers whose experience is worse than their rate group average pay a surcharge.

The experience rating program attempts to promote positive safety attitudes and to provide equity through a system of recognition and accountability for claims costs. The goal is to encourage employers with high injury costs to reduce them, and to encourage employers with low injury costs to keep them low. The desired outcome is a reduction in the social and economic costs of work-related injuries and diseases.

2. THE ACT

Section 42:

The Board must establish subclassifications, differentials and proportions in the rates as between the different kinds of employment in the same class as may be considered just; and where the Board thinks a particular industry or plant is shown to be so circumstanced or conducted that the hazard or cost of compensation differs from the average of the class or subclass to which the industry or plant is assigned, the Board must confer or impose on that industry or plant a special rate, differential or assessment to correspond with the relative hazard or cost of compensation of that industry or plant, and for that purpose may also adopt a system of experience rating.

POLICY

(a) The Experience Rating Plan

The main features of the experience rating ("ER") plan are:

- (1) The ER plan applies to all employers and independent operators in ratable classes.

- (2) The ER plan is prospective in application. ER adjustments are calculated on the basis of past claims costs and payroll and are applied to employers' assessments. Thus, a firm's experience is a measure of a firm's performance relative to its rate group based on information derived by the Board from appropriate past claims costs and payroll.
- (3) ER adjustments are based solely on claims costs. The costs used are those directly associated with compensation claims, including the capitalized value of pensions awarded. The cost used for fatal claims is the five-year moving Board-wide average rather than the actual cost of each claim.
- (4) The Board's administrative costs are not included in the ER calculation.
- (5) The ER plan uses claims costs arising from claims commenced in the three calendar years prior to the year in which the calculation is made (the "ER Window"). This includes all costs of those claims up to and including June 30th of the year of calculation.
- (6) The costs included are subject to maximum limits for each claim as follows:
 - 100% of the first \$70,000;
 - 50% of the next \$50,000; and
 - 10% of all costs above \$120,000.
- (7) An employer's cost to assessable payroll ratio is compared to the cost to assessable payroll ratio of the rate group to which the employer is assigned.
- (8) The payroll used is the total assessable payroll used to calculate employers' assessments in the ER Window. This amount excludes earnings above the maximum wage, and includes Personal Optional Protection amounts.
- (9) In determining the cost to assessable payroll ratio in the ER Window, the most recent year is weighted at 50%, the prior year at 33.3%, and the most distant year at 16.7%.
- (10) The calculation involves combining an employer's cost experience in the ER window with its ER factor for the previous year. The ER factor reflects the fact that employers participate at different levels, based on the size of the employer's assessment before the ER adjustment. The higher an employer's base assessment, the higher its level of participation in the plan. A higher level of participation means an employer's ER adjustment

- is more responsive to its claims costs experience in the current ER window.
- (11) The minimum participation level is set at 10%.
 - (12) The maximum ER discount is 50%. The maximum ER surcharge is 100%, except where an excess cost surcharge applies.
 - (13) Employers enter the plan for the first time when they have had some payroll within the current ER window.
 - (14) Where any part of an employer's payroll has been estimated, any resulting discount will not be applied. If a surcharge results, it will be applied. If an estimate is replaced by the actual payroll information, the experience rating will be recalculated.
 - (15) The employer for experience rating purposes is the legal entity operating the business. If an employer operates divisions, whether they are separately registered with the Board or not, the employer's combined experience determines the rating for all the employer's operations.
 - (16) Employers registered voluntarily under sections 3(5) to (7) of the *Act* or by a variance from a general exemption order under section 2(1) of the *Act* are excluded from participating in the experience rating plan.
 - (17) For simplicity, ER discounts or surcharges are generally expressed as percentage adjustments to employers' base assessment rates.

(b) The Excess Cost Surcharge

The excess cost surcharge is a component of the ER plan allowing the Board to more properly rate firms with ongoing high costs. A firm qualifies for an excess cost surcharge where:

- the firm is active and its average claim cost to payroll ratio, as calculated by the Board, is three or more times that of its rate group for three consecutive assessment years;
- the firm has a calculated ER surcharge adjustment of 90 percent or more; and,
- the firm has had 50 or more non-health care only claims in the five consecutive years ending with the most recent year in the ER window.

The Board will determine a required rate for a qualifying firm to enable calculation of the firm's excess cost surcharge. The required rate will be set annually based on the following:

- (1) In the first year a firm qualifies for an excess cost surcharge, the Board will determine the required rate using claims costs arising from claims commenced in a period of up to 15 calendar years prior to the year in which the calculation is made.
- (2) After the first year the required rate will be the lower of:
 - (i) a rate set as described in section (1), above; or
 - (ii) a rate set using a weighting determined by the Board that blends a rate using:
 - claims costs arising from claims commenced in the five years prior to the year in which the calculation is made, and,
 - a rate set as described in section (1), above, where the five-year rate is lower than the rate set as described in section (1).
- (3) Since the required rate is set annually, subsequent changes in claim cost or payroll information will be reflected in the next year's required rate calculation.
- (4) The required rate is capped at 500 percent of a firm's yearly-established classification base rate.

Once qualified for an excess cost surcharge, a firm is stepped toward the required rate over four years, and will be charged premiums at the required rate in the fifth and subsequent years. The progression toward the required rate functions as follows:

	(A) Starting Rate	(B) Yearly Calculated Required Rate	(C) ECS Calculation	(D) ECS Adjusted Net Rate Calculation For Year
Year 1	Firm's net rate from the prior year as calculated under the ER system	Required rate for Year 1	$\frac{(B) - (A)}{5}$	(A) + (C)
Year 2	Excess cost surcharge adjusted net rate from prior year	Required rate for Year 2	$\frac{(B) - (A)}{4}$	(A) + (C)
Year 3	Excess cost surcharge adjusted net rate from prior year	Required rate for Year 3	$\frac{(B) - (A)}{3}$	(A) + (C)
Year 4	Excess cost surcharge adjusted net rate from prior year	Required rate for Year 4	$\frac{(B) - (A)}{2}$	(A) + (C)
Year 5 (and subsequent years)	Excess cost surcharge adjusted net rate from prior year	Required rate for Year 5	$\frac{(B) - (A)}{1}$	(A) + (C) (equals the yearly calculated required rate)

Once qualified, a firm will be subject to an excess cost surcharge until, for two consecutive years:

- the firm's ER surcharge as calculated under the conventional ER plan is below 90 percent; or,
- the firm's claim cost to payroll ratio, as calculated by the Board within the ER window, is less than three times that of its rate group.

Policies concerning classification changes and experience rating transfers apply to firms subject to an excess cost surcharge. If a firm changes classifications, the Board determines the firm's qualification for, and/or the amount of, an excess cost surcharge within the new classification.

PRACTICE

For further information on the experience rating system and any other relevant PRACTICE information, readers should consult the Practice Directives and other materials available on the WorkSafeBC website at www.worksafebc.com.

EFFECTIVE DATE:	January 1, 2009
AUTHORITY:	s. 42, <i>Workers Compensation Act</i> .
CROSS REFERENCES:	See also Requesting a Variance from a General Exemption (AP1-2-2), Personal Optional Protection (AP1-2-3), Extending the Application of the <i>Act</i> (AP1-3-1) with regard to sections 3(5) to 3(7) of the <i>Act</i> , Classification – Changes (AP1-37-3), Registration of Employers (AP1-38-1), Payroll Estimates (AP1-38-5), Maximum Wage Rate (AP1-38-6), ER Cost Inclusions/Exclusions (AP1-42-2) and Transfer of Experience Between Firms (AP1-42-3) in the <i>Assessment Manual</i> .
HISTORY:	Updated to add the Excess Cost Surcharge effective January 1, 2009 Updated to define “experience” effective June 1, 2005. Replaces Policies No. 30:50:10 and 30:50:41 of the <i>Assessment Policy Manual</i> and Decision No. 401 in Volumes 1 - 6 of the <i>Workers’ Compensation Reporter</i> . This Item results from the 2002 “editorial” consolidation of all assessment policies into the <i>Assessment Manual</i> . The POLICY in this Item continues the substantive requirements of the policies and items referred to in the HISTORY as they existed prior to the Effective Date, with any wording changes necessary to reflect legislative and other changes since the policies and items referred to in the HISTORY were issued.
APPLICATION:	The amended policy applies to experience rating calculations made for years on or after January 1, 2009.

the operations changes, the provisions of Item AP1-37-3 (Classification - Changes) are considered in conjunction with this policy.

- a) Generally, a firm's experience will remain with the firm if it undergoes a change in ownership through a share purchase or other means, as the same firm remains in operation.

PRACTICE

For any relevant PRACTICE information, readers should consult the Practice Directives available on the WorkSafeBC website at www.worksafebc.com.

EFFECTIVE DATE:	June 1, 2005
AUTHORITY:	s. 42, <i>Workers Compensation Act</i> .
CROSS REFERENCES:	See also Coverage Under <i>Act</i> – Descriptions of Terms (Item AP1-1-1) and Classification – Change (Item AP1-37-3) and Experience Rating (Item AP1-42-1) in the <i>Assessment Manual</i> .
HISTORY:	Changes to the criteria by which experience transfers are adjudicated were made effective June 1, 2005. This Item resulted from an editorial consolidation of the former <i>Assessment Policy Manual</i> , which was effective on January 1, 2003. The Policy in this Item continued the substantive requirements that existed before the consolidation, with any wording changes necessary to reflect legislative and other changes that had occurred. Policy No. 30:50:50 in the former <i>Assessment Policy Manual</i> was replaced by this Item. Consequential changes to this Item made as a result of the <i>Workers Compensation Amendment Act (No. 2), 2002</i> were effective on March 3, 2003.
APPLICATION:	The amended policy applies to all decisions made on or after June 1, 2005.

APPENDIX "A"**AMOUNTS REFERRED TO IN POLICIES THAT ARE
ADJUSTED FROM TIME TO TIME****AP1-2-2 – Requesting a Variance from a General Exemption**

The minimum outstanding balance for the purpose of part (b) of the policy is \$100.00

AP1-2-3 – Personal Optional Protection

The minimum outstanding balance for the purpose of part (b) of the policy is \$100.00.

The Board has designated \$1500 as the minimum amount for which Personal Optional Protection may be obtained under part (c) of the policy. This amount will be adjusted periodically to reflect the minimum wage rate for the Province of British Columbia.

AP1-38-6 – Maximum Wage

The maximum wage rate in 2008 is \$66,500 and in 2009 is \$68,500.

AP1-47-1 – Penalties

The percentage rate of penalty in effect under part (c) of this policy is 1%.

AP1-51-1 – Contractor Liability

The minimums in effect for the exemptions provided by the policy for prime contractors and homeowners are \$200 and \$500, respectively.