

2008/03/19-03**THE WORKERS' COMPENSATION BOARD OF BRITISH COLUMBIA****RESOLUTION OF THE BOARD OF DIRECTORS****RE: Experience Rating System Enhancement –
Excess Cost Surcharge****WHEREAS:**

Pursuant to section 82 of the *Workers Compensation Act*, RSBC 1996, Chapter 492 and amendments thereto (“*Act*”), the Board of Directors must set and revise as necessary the policies of the Board of Directors, including policies respecting compensation, assessment, rehabilitation, and occupational health and safety;

AND WHEREAS:

Pursuant to section 42 of the *Act*, the Workers' Compensation Board may adopt a system of experience rating that confers a special rate upon an industry or plant to correspond with the relative hazard or cost of compensation of that industry or plant;

AND WHEREAS:

The Board of Directors has been made aware of concerns that the present experience rating system does not accommodate fully the extent of certain firms' hazards or costs of compensation;

AND WHEREAS:

The Policy and Research Division has undertaken stakeholder consultation on this issue;

THE BOARD OF DIRECTORS RESOLVES THAT:

1. The POLICY statements in *Assessment Manual* Item AP1-42-1 are approved as set out in Appendix A of this Resolution, and apply to experience rating calculations for years on or after January 1, 2009;
2. This resolution constitutes a policy decision of the Board of Directors.

DATED at Richmond, British Columbia, March 19, 2008.

By the Workers' Compensation Board

**DOUGLAS J. ENNS, CHAIR
BOARD OF DIRECTORS**

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ASSESSMENT MANUAL POLICY
ADDITIONS IN BOLD AND DELETIONS STRUCKTHROUGH



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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.

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POLICY

(a) The Experience Rating Plan

Effective ~~January 1, 2000, a new experience rating ("ER") plan took effect.~~ The main features of the **experience rating ("ER")** plan are:

- (1) The ~~same~~ ER plan applies to all employers and independent operators in rated 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.

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- (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.

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(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.

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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.

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PRACTICE

Further information on the experience rating system can be found on the ~~WCB~~ **WorkSafeBC** website.

For any other relevant PRACTICE information, readers should consult the Practice Directives available on the WCB website.

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| 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 Act (AP1-3-1) with regard to sections 3(5) to 3(7) of the Act, 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: | This policy applies to experience rating calculations made for years on or after January 1, 2009. |