

WORKERS COMPENSATION BOARD  
OF PRINCE EDWARD ISLAND

Rewarding the safety achievements of individual employers

*Experience  
Rating Program*



**Safety Matters**  
@ Work



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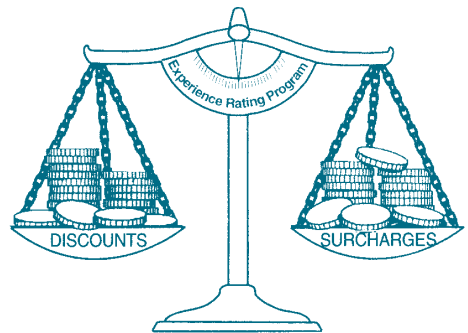
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# Introduction to the experience rating program

Experience rating was first requested by the construction industry on Prince Edward Island. Industry representatives believed that employers with few workplace injuries were subsidizing those with many, and that assessment rates were driven up by a minority of employers. To address these needs, WCB designed a system that considers safety performance. With experience rating, the assessment rate is determined by the firm's own experience as it compares to other employers in their industry. Employers with a history of claims costs higher than the group average pay a surcharge, while those with lower claims costs receive a discount. Also, to protect employers from drastic increases, the discounts and surcharges are capped at established limits while still basing rates on individual experience.

**PEI's experience rating program is perfectly balanced. The surcharges paid by some employers are balanced by the discounts to other Island employers. Thus, no extra money or profit is collected by WCB.**



Experience rating allows the costs of workers compensation to be shared fairly among Island employers and offers them a financial *incentive* to create safer working environments. Simply put, when employers reduce accidents and costs to the workers compensation system, they pay lower rates to WCB.

## What costs are included in employer experience?

1. Capitalized reserves are not included in the experience rating model. Cash payments associated with these claims are used instead. For varying reasons, such as volatility and understandability, long-term earnings loss reserves are not considered for purposes of experience rate calculations.
2. Fatal accidents are assigned a new injury cost equal to the maximum assessable earnings level in effect for the year of the accident.
3. Costs for each claim are limited to an amount equal to the maximum assessable earnings level in effect for the year of the accident.
4. Maximum costs per claim for experience rating purposes.

Accident Year	YEAR 1	YEAR 2	YEAR 3
Cost Limit	39,300	40,000	41,200

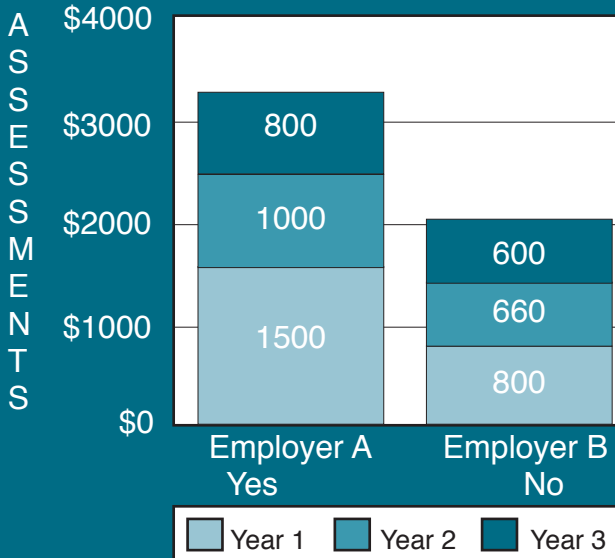
# Who participates in experience rating?

Employers who have paid assessments of \$3,000 or more over the previous three years (an average of \$1,000 per year over a three-year period) will be experience rated.

If you qualify for the experience rating program, you may *not* opt out. Participation is compulsory. If employers with poor safety records could opt out of the program, they would have no incentive to improve their safety performance.



## Who participates in experience rating?



## Some facts:

- Approximately 1/3 of Island employers out of 5,000 are *experience rated*
- Approximately 75% of employers *pay the same or less* than their group rate
- Approximately 25% of employers *pay a surcharge* - more than their group rate

## Experience period

WCB uses three years of costs to measure an employer's experience. More specifically, when WCB calculates the "experience rating" of an employer, we consider the first three of the past four years of payroll and compensation costs.

For example, when calculating the rate for the upcoming year, WCB considered the compensation costs and payroll for the previous three years. The current "lag year" is not used to set the rate. Having a lag year gives WCB time to gather complete information for that year. It also allows WCB to notify employers of their assessment rates in advance, so that employers can budget for the next assessment year.



Workers Compensation Board  
of Prince Edward Island

YEAR 1

YEAR 2

YEAR 3

CURRENT  
YEAR

UPCOMING  
YEAR

3-year  
experience period

Lag Year

experience  
rating year

## How is Experience Rating Calculated?

WCB calculates an individual employer's *cost ratio* over a three-year period (cost ratio = total claim costs divided by total assessable payroll). Your employer cost ratio is then compared to the cost ratio of the entire rate group.

An employer who has a better cost ratio than the rate group average will receive a reduction in their rate (a discount of up to 25%), while an employer with a worse cost ratio will receive an increase in their rate (a surcharge of up to 50%).

Your discount or surcharge is based on two factors:

- 1) your claims costs, payroll and assessments for the three-year period.
- 2) your *rate group's* claims costs, payroll and assessment for the three year period.

## 10 steps to your assessment rate:

To determine your assessment rate under the experience rating program, WCB follows a 10-step process (these steps are also outlined on the employers' Notification of Assessment sheet - see sample on page 13.)

### Information about your firm

- 1 Your record of claim costs is calculated for your three-year experience period.

The claim costs which affect your rate are the cash payments made by WCB as a result of injuries that occurred during the three-year period. These are called "new injury costs." (Details of costs that are included in and excluded from experience rating are outlined in the Question and Answer section of this brochure.)

For example

<b>New injury costs</b>	<b>\$1,050</b>
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- 2 Your three-year record of assessable payroll is calculated.

For example

<b>Payroll Year 1</b>	<b>\$250,000</b>
<b>Year 2</b>	<b>+ 300,000</b>
<b>Year 3</b>	<b>+ 400,000</b>
<b>Three-year payroll</b>	<b>= \$950,000</b>

## Your firm's rating

- 3 Your employer cost ratio is calculated.

WCB divides your claim costs by your assessable payroll. The result is your employer cost ratio.

For example

New injury costs		\$1,050
Three-year payroll	+	<u>\$950,000</u>
Employer cost ratio	=	0.001105

- 4 WCB identifies the cost ratio for your rate group.

For example

Group cost ratio	0.006326
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## Your firm's variance from the industry group rate

- 5 Your employer cost ratio is then compared to the cost ratio of your rate group. When this result is converted to a percentage, it shows how much better or worse your experience is, compared to the industry average. This is your *employer variance percentage*. (This figure *could* represent your experience rate, but WCB applies two levels of adjustments in steps 6 and 7, to protect employers from huge fluctuations in their rates.)

For example

Employer cost ratio		0.001105
Group cost ratio	-	<u>0.006326</u>
	=	-0.005221
Group cost ratio	÷	0.006326
	x	<u>100</u>
Employer Variance %	=	-82.53%

## Your firm's participation factor

### 6 Your participation factor is calculated.

Employers participate in experience rating at different levels, depending on the size of their payrolls. Employers with the minimum qualifying average assessment of \$1,000 per year have a participation factor of 25 percent. This participation factor increases by 5 percent for each additional \$1,000 of assessment. (If your average assessment over the three-year experience period was \$2,000, your participation factor will be 30 percent. If your average was \$16,000 or more, your participation factor will be 100 percent.) In this way, smaller employers are shielded from excessive changes in their rates from year to year.

For example

Average assessment	\$7,500
For first \$1,000	25%
For additional \$6,000	$5\% \times 6 = 30\%$
Participation Factor	<u>55%</u>

### 7 Your rate is adjusted based on your employer variance percentage and your participation factor.

Your rate adjustment is reduced by dividing by 4 to protect your rate from changing significantly from year to year.

Then the rate adjustment is applied up to a 25% maximum for a discount or a 50% maximum surcharge. If your rate adjustment should be greater than the 50% maximum limit, the maximum limit will apply. This again reduces the fluctuation from year to year.

For example

Employer Variance %	-82.53%
Participation Factor	$\times$ 55%
	$\div$ 4
Rate Adjustment	<u>- 11.35%</u>

## Your firm's discount or surcharge percentage

- 8 WCB identifies the assessment rate of your rate group.

For example

<b>Industry assessment rate for current year</b>	<b>\$2.03</b>
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- 9 Your *experience rate* is calculated. WCB does this by multiplying your rate adjustment by the group rate. Your experience rate is your percentage of discount or surcharge.

For example

<b>Industry rate</b>		<b>\$2.03</b>
<b>Rate adjustment</b>	<b>x</b>	<b>-11.35%</b>
<b>Experience rate</b>	<b>=</b>	<b>- 0.23</b>

- 10 **Net assessment rate**

WCB calculates your net assessment rate by applying your experience rate (the percentage of discount or surcharge) to the industry assessment rate.

For example

<b>Industry rate</b>		<b>\$2.03</b>
<b>Experience rate</b>	<b>+</b>	<b>- 0.23</b>
<b>Net assessment rate</b>	<b>=</b>	<b>\$ 1.80</b>

- 11 **Transition Rate**

This rate takes in to consideration the implementation of the Experience Counts rating program, introduced in 2005. Experience Counts ties the WCB focus on workplace health and safety to employer classification and rate setting. Your firm will be assessed at this rate, and you will pay this amount for ever \$100 of assessable payroll.

# How Employers are Notified

Each year, participating employers are sent a *Notification of Assessment Rate*, which gives information on the cost of your claims, and a detailed calculation of your rate. You will receive a separate notification for each employer account that is part of the Experience Rating Program.

This notification is an advice statement only, not a bill.

For example

<b>Assessable payroll</b>		<b>\$405,000</b>
	÷	<b>\$100</b>
<b>Net assessment rate</b>	x	<b>\$1.80</b>
<b>Assessment to be paid</b>	=	<b>\$7,290</b>

## Experience Counts

In 2005, WCB introduced a new program called Experience Counts. The program ties the practice of rate setting largely to employer workplace health and safety performance. This gives employers more control in regard to the process of setting assessment rates and in doing so ensures that overall system costs are shared fairly by all employers.

WCB applies an experience rating adjustment to qualified employers each year. *The Experience Counts* program increases employer accountability and enhances assessment rate responsiveness by increasing experience rating limits. Experience rating discount limits will remain unchanged at a maximum of 25%. However, employers who have a very poor workplace safety record over the long term could face up to a 50% group rate surcharge.

Enhancing responsiveness to claims experience means employers who pro-actively invest in accident prevention and workplace safety over a reasonable period of time will see this investment returned in the form of assessment rate reductions.

# Sample

## “Notification of Assessment Rate” form



### Workers Compensation Board of Prince Edward Island

#### NOTIFICATION OF ASSESSMENT RATE

FIRM NUMBER	PAGE
RATE GROUP	DATE

1 NEW INJURY COSTS				2 PAYROLLS
CLAIM NUMBER	NAME	YEAR OF INJURY	PAYMENTS IN	Year 1 Year 2 Year 3 TOTAL
				3 EMPLOYER COST RATIO ①/②=
				4 GROUP COST RATIO
				5 EMPLOYER VARIANCE PERCENTAGE $\frac{③-④}{④} \times 100 =$
				6 PARTICIPATION FACTOR
				7 RATE ADJUSTMENT <small>1% FOR EACH 4% OF EMPLOYER VARIANCE</small> $\frac{⑤ \times ⑥}{④} =$
				8 INDUSTRY ASSESSMENT RATE
				9 EXPERIENCE RATE $⑧ \times ⑦ =$
				10 NET ASSESSMENT RATE $⑧ + ⑨ =$
				11 TRANSITION RATE

## Questions and answers

- **Why are the maximum discounts and surcharges limited?**

The maximum rate adjustment limits were set to provide a meaningful difference in an employer's assessment without allowing dramatic rate increases that might affect an employer's ability to operate effectively.

- **If I am 25 percent better than my industry group average, why do I only get a 1 percent reduction for every 4 percent, instead of a one-for-one reduction?**

The 4-percent increments help to prevent extreme fluctuation in your assessment costs from year to year. It limits the impact that a single, costly claim might otherwise have on your assessment rate. In effect, it helps stabilize your assessment costs until you reach a significant variation of 4 percent or more from the industry group average.

- **Why is the base period three years, instead of one or two?**

Employers told us they wanted a claim period that was long enough to smooth out the extreme fluctuations in assessments that one bad injury year could cause. At the same time they wanted a period short enough to prevent old injuries from affecting their rate. They also did not want new companies to have to wait too long before qualifying for experience rating. Three years strikes a good balance between these concerns.

- **How long will a claim affect my rating?**

| A claim will affect your rating for one to three years. After that, a claim will no longer appear on your record for experience rating purposes.

- **Who else is in my rate group?**

| Your direct competitors, based on industrial classification, are in your rate group. Employers are classified using the Standard Industrial Classification (SIC) coding scheme developed by Statistics Canada.

| Also included in your rate group are industries that have demonstrated similar patterns of accident experience or risk over the last three to five years.

- **How does my experience rating affect my dealings with WCB?**

| The only potential change will be in your assessment rate. You will receive a Notification of Assessment Rate giving the details of how experience rating applies to your account.

| All other contact with WCB, such as the reporting of accidents, reporting of payroll and invoicing remain unchanged.

- **Is my experience rating confidential?**

| Yes, it is.

- **Does experience rating contradict the collective liability principle that claims costs should be shared by all employers?**

It has long been recognized that industries with low accident rates should not have to contribute as much as those with higher rates. Existing industry group rates are already a modification of a pure collective liability system (some groups pay higher rates than others). Experience rating refines the system further by recognizing that safety performance can vary within particular industries.

Collective liability remains a fundamental principle of the workers compensation assessment system. That is one reason why adjustments for experience rating are limited.

- **Why should I pay for claims that are not my fault?**

The no-fault concept still underlies the workers' compensation system. It allows claims to be settled quickly without assigning blame. The costs of claims are still spread among all the employers in each industry. However, experience rating shifts some of the financial responsibility to companies with worse-than-average experience and rewards companies with better-than-average experience. In this way, experience rating makes a more equitable system and provides an incentive for improved safety.

## • **How can I reduce the cost of injuries?**

The first thing is to prevent injuries by following PEI's Occupational Health and Safety Act and Regulations. Occupational Health and Safety requires the development of workplace safety programs and the direct involvement of employees in your efforts to minimize injuries and eliminate health risks.

If a worker is injured, it is important to properly manage the worker's progress. Send in your report of injury promptly. Keep in touch with the recovering worker and with WCB so that everyone has the information they need.

It is very important that you *participate in the return-to-work programs* sponsored by WCB. If at all possible, you should take the recovering worker back to work to do ease-back programs or modified duties so that the worker can remain active during the recovery period. All return-to-work programs are designed to reduce the duration and the cost of injuries.

## • **If I have temporary workers on payroll, will I be experience rated?**

There is no distinction between temporary and full-time employees for experience rating purposes. If all experience rating criteria are met, you will be experience rated, regardless of the make-up of your workforce.

## • **What costs are included in experience rating?**

- 1) short-term compensation payments
- 2) health care payments
- 3) rehabilitation payments
- 4) long-term compensation payments
- 5) permanent functional impairment awards
- 6) industrial disease claims
- 7) fatality costs

• **What costs are excluded from experience rating?**

- 1) administrative costs
- 2) claims indicating the initiation of a third-party recovery action
- 3) overpayments on claims
- 4) payments on claims that occurred prior to the 3-year experience period
- 5) payments on claims in excess of the maximum earnings level of the accident year

• **How does experience rating benefit employers and workers?**

The cost savings that a firm can realize through improved safety is a benefit to everyone in that company, not just the employer. Moreover, experience rating can be an incentive for employers to create safer working environments and to involve workers in safety programs. Improved safety means fewer lost work hours and a better work environment. Employers and employees can work together to reduce accidents and costs to the workers compensation system to their mutual benefit.

One of the major benefits of an experience rating program is that participants - employers - can have a direct influence on rate setting. By improving their safety performances, employers can reduce their costs to the workers compensation system, and pay lower rates to WCB. The incentive is there for everyone - employers and workers.

## Note to employers

If, after reading this booklet, you have any questions about the Experience Rating program, please call WCB's Employer Services Division at 902-368-5680 or toll free at 1-800-237-5049. We'll be pleased to answer your questions.

Please see all the employer booklets and forms on our website at [www.wcb.pe.ca](http://www.wcb.pe.ca).

### Notes:

Notes:





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