# 2016
# ASSESSMENT RATES

# FOREWORD

WorkSafeNB determines employers' assessment rates annually. Several factors influence rates, such as WorkSafeNB's current financial obligations, the prevailing economic environment, the cost of health-care services, injury frequency and severity, claims adjudication and benefit policies and practices, legislation, workplace prevention and return-to work initiatives, as well as the changes in the nature of workplace activity in the province.

Each year's assessment rates must generate enough revenue to cover all current and future costs associated with workplace injuries occurring in the assessment year, including health care, rehabilitation and wage replacement benefits. In addition to accident-related expenses, the assessment rates also include all expenditures for safety and prevention programs and all administrative expenses, and may include a funding adjustment to account for prior year deviations. The 2015 $1.11 average rate per $100 of assessable payroll will be maintained for 2016.

Information 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 managed on a self-insured basis. As a result, some of the statistics will differ from those in the annual report, as they include information relating to both assessed and self-insured employers. Contributions to fund claims under the *Firefighters' Compensation Act* are determined and collected separately.

October 2015

# TABLE OF CONTENTS

# 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 2016, along with the resulting rate per $100 of assessable payroll.

| **Required revenue projection** | **in millions** | **per $100 payroll** |
|---|---|---|
| Cost of benefits | $ 90.9 | $ 1.03 |
| Administration and prevention costs | $ 44.8 | $ 0.51 |
| Target funding level adjustment | $ (37.8) | $ (0.43) |
| **Total required revenue** | **$ 97.9** | **$ 1.11** |
| **Assessable payroll projection** | **$ 8,821 million** | |

## Assessable Payroll Projection

Each worker's annual payroll must be reported to the maximum assessable payroll amount, which is $61,800 for 2016, a 1.5% increase over 2015. The Conference Board of Canada predicts 2.5% overall wage inflation for New Brunswick workers in 2016, and 1.2% 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 business activity in the province can also help predict changes in claim levels.

As with any forecasting process, deviations from the projection will occur. Historically, costs and payrolls/assessments shift in a reasonably consistent manner so there is not usually a material gain or loss solely from of a deviation between actual and expected payrolls/assessments.

| | **2016** |
|---|---|
| **Assessable payroll projection in millions** | **$ 8,821** |

# Required Revenue Projection

The estimated revenue required by policy and legislation must cover the projected cost of benefits for accidents occurring in 2016, the estimated administration costs from the approved budget and the funding provision required by policy.

## COST OF BENEFITS

Assessments collected must fully fund the cost of claims expected to occur in the assessment year, including all future costs associated with these claims. For a young injured worker, payments could continue for the next 80 years. Actuarial forecasts project the aggregate cost based on current WorkSafeNB practices, as well as current economic and claim trends for the province. Forecasts would also factor in any changes in benefits arising from approved legislative and policy amendments. Events may not materialize as assumed under changing economic conditions. As well, the future could bring changes in fee levels, policies and/or practices that were not taken into account when this report was prepared. For example, Appeals Tribunal or Court of Appeal decisions could lead to unexpected changes.

Claim cost projections are primarily based on prior year results with analysis of recent trends and any known changes in fee levels, policies, procedures, etc. Trends can be very 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. In addition, billing and payment delays can mask an emerging trend. History has shown 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

A comprehensive legislative review of the *Workers' Compensation Act* is ongoing. While this may result in changes to services and benefit levels in the future, no policy or legislative changes were factored into the 2016 required revenue projections.

## WAGE REPLACEMENT AND REHABILITATION

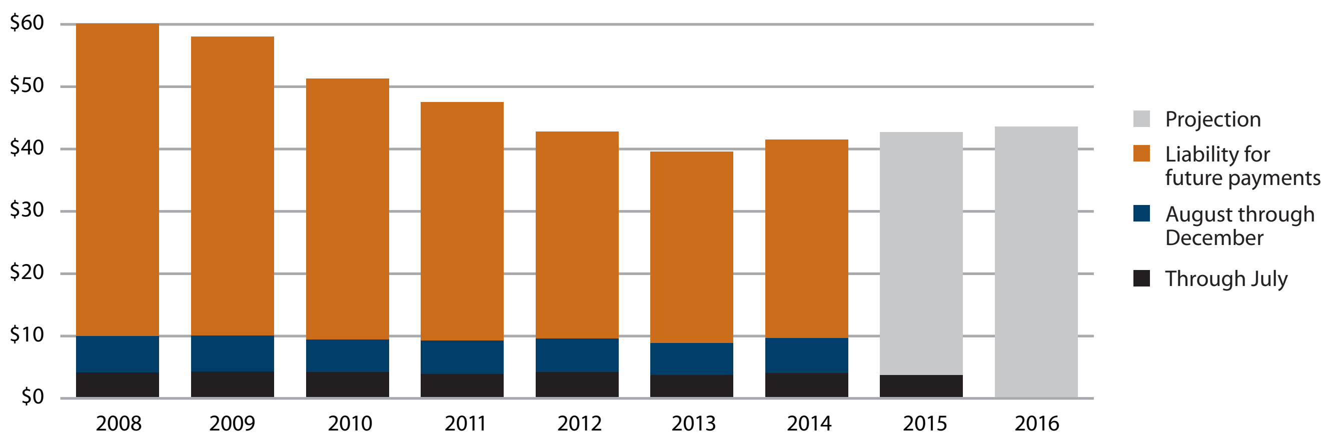
The chart below illustrates actual costs through July of the given accident year in black, and costs from August to December in blue. The larger portion of costs, presented in orange, represents the accident year's projected liability, based on information available at the end of the accident year. The declining costs through 2013 reflect the decreasing claim frequency. The number of claims receiving wage replacement benefits in a given accident year has declined 23.2% over the five years leading up to 2013, an average of 5.1% per year. WorkSafeNB processed only 2,290 such claims in 2013, compared to 2,990 in 2008.

In 2014, 2,409 wage loss claims were recorded through December, a 5.1% increase over 2013. The duration of wage loss for those claims was on average 6.2% longer. As well, policy changes allowed for higher benefit levels for some claimants in receipt of other remuneration. The policy now states that any such remuneration must be both earned and received during the disablement period to be deducted as a supplement to compensation. A number of reasonable assumptions were used to develop the preliminary forecasts relating to this benefit change for 2014 and 2015. Experience continues to be monitored and estimates revised as trends emerge.

More recent statistics show a 1% decrease in the number of claims and an 8% decrease in average duration of 2015 claims through July, relative to 2014. While claims through July of 2015 seem to have returned to 2013 levels, it is still unclear how costs will mature through the end of the year. A range of projections was developed for 2015 and 2016, factoring in inflation and assuming recent claim levels. Projections reflecting 2014 claim patterns are illustrated in grey in the following chart. Wage replacement for 2015 claims is expected to cost 2.9% more than for 2014 claims, with an additional 2.0% increase in 2016.

## NEW ACCIDENT COSTS

**Wage Replacement and Rehabilitation (in millions)**

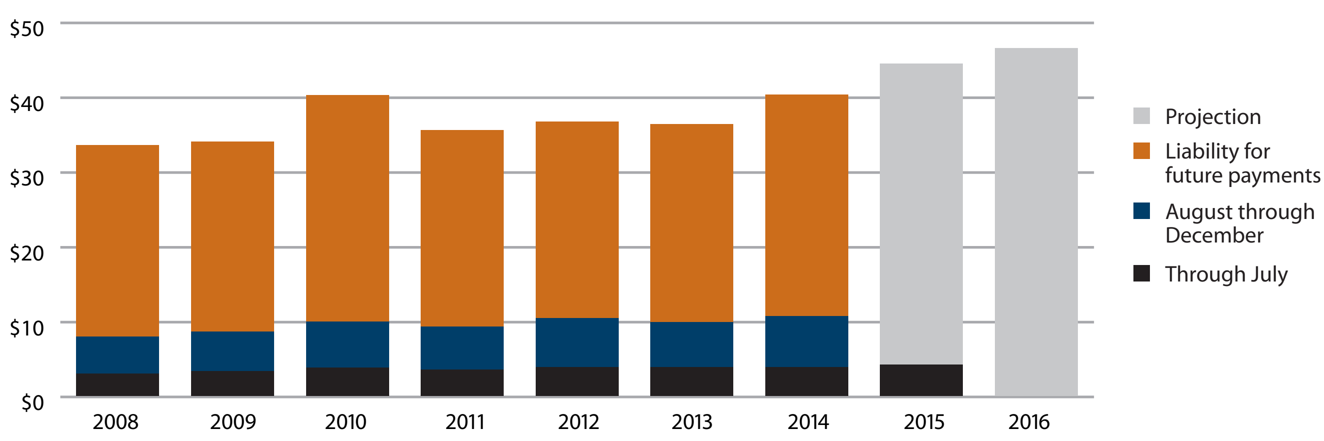


## HEALTH CARE

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 since been growing modestly until 2014, when a significant increase resulted from the rise in the number of hearing loss claims. WorkSafeNB covers all health-care expenses, including medical appointments, hospital stays and prescriptions. It is difficult to predict exactly the medical treatments needed by injured workers and their cost, especially with rapidly increasing fees and advances in medical technology. The number of accidents requiring health-care services has remained fairly stable over the last five years. In 2014, health-care invoices for 9,170 injured workers were processed before the year's end, compared to 10,320 in 2008. Health-care expenditures through July of 2015 showed an increase of 8.2% relative to July of 2014. A range of projections was developed for 2015 and 2016 assuming growth in the number of claims and a number of 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, an average of seven workplace accidents per year have resulted in a fatality. An amount of $1.1 million will be collected in 2016 to cover estimated benefits for dependent survivors.

WorkSafeNB also recognizes a liability for long latency occupational diseases. This liability is calculated as 4.5% of benefit liabilities. The interest earned by assets invested to cover this liability should be sufficient to maintain the target level of the reserve. So, no additional provision was included in assessment rates for 2016.

While the range of possible outcomes was developed using historical data and reasonable assumptions, significant deviations can occur and results may even be lower than optimistic projections or higher than conservative projections. Given recent trends in claim severity, the revenue requirement projection reflects 2014 claim levels for wage loss and anticipates growth in health-care costs.

| **Estimated cost of benefits in millions** | **2016** |
|---|---|
| Wage replacement and rehabilitation | $ 43.3 |
| Health care | $ 46.5 |
| Survivor benefits for fatal injuries | $ 1.1 |
| Occupational diseases | $ 0.0 |
| **Total** | **$ 90.9** |

## ADMINISTRATION AND PREVENTION COSTS

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 associated with the management of prior years' claims. Some of the current administration expenses have already been provided for through prior years' assessments. On the other hand, new accident costs must include a provision for future administrative expenses of current year accidents.

WorkSafeNB commits to invest in research, leadership and prevention initiatives to change workplace culture and further strengthen workplace occupational health and safety.

| | **2016** |
|---|---|
| **Administration and prevention costs in millions** | **$ 44.8** |

## 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 annual rate of return of 6.6% 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 6.6% while, in other years, it may grow by much less or even shrink. In 2014, investments earned 8.5%, bringing WorkSafeNB's invested assets to $1,302 million on December 31, 2014. Favourable investment returns over the past few years have had a very positive impact on the organization's financial position.

While liabilities may not be as volatile as investment returns from year to year, they too can generate gains and losses. Each year, using past experience, actuaries estimate the amount that should be invested on December 31 to meet all future obligations to injured workers. As claims mature, the estimates are revised 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, 2015.

After a few years of above expected asset growth combined with below expected growth in liabilities, assets were in excess of liabilities by $412.9 million by the end of 2014. The resulting funded ratio of 137.3% is well above both the legislated requirement of 100% and the funding policy target of 110%. 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. The 2016 average assessment rate includes a reduction of $37.8 million, equivalent to $0.43 per $100 of assessable payroll on the average rate. Some of the 2016 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.

| | 2016 |
|---|---|
| **Target funding level adjustment in millions** | **$ (37.8)** |

# II - CLASSIFICATION

Instead of taking a 100% collective liability approach, where all employers would be assigned the same 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 accidents that have occurred in the five most recent calendar years. Since the 2016 assessment rates are calculated in 2015, the five-year period spans 2010 to 2014. Because all fatalities are serious, even though some may be relatively inexpensive, they are assigned a cost of $125,000.

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

## INDUSTRIES

Employers are assigned to one of 789 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 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. The rate groups' historical experience relative to others is used to determine appropriate assessment rates to ensure employers pay their fair share of benefit costs. While industries will occasionally be classified into a different industry group and/or rate group if their accident experience changes, the goal is to maintain a balance between stability and responsiveness, with changes made only when warranted by a continued significant change 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 classification section, each rate group is responsible for a given percentage of total claim costs and assessable payroll. A rate group accounting for an equal percentage of overall costs and assessable payroll will pay the average assessment rate. On the other hand, a higher risk rate group with a percentage of costs twice the percentage of its assessable payroll will pay twice the average rate. The calculated basic rate is subject to the minimum basic rate of $0.26. 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 of individual employers from year to year. If classification into a different industry group or rate group causes a large change in the basic rate, annual transition limits will be applied until the group's basic rate is reached. Basic rate decreases are limited to 20% in addition to the percentage change in the average assessment rate. Basic rate increases are limited to the greater of the percentage change in the average assessment rate plus 20% or $0.20. Given the unchanged average rate, 2016 reclassification decreases will be limited to 20%, and the increases limited to the greater of 20% or $0.20. While this may seem less responsive, reviewing industry groups each year limits the employers' risk of paying an assessment rate that does not reasonably reflect current accident experience for their industry. Also, large industries that have credible experience are generally in their own rate group and are not subject to reclassification. However, the employers, who are now classified in different industries because of a change in the nature of business activity or an audit uncovering a classification error, are not subject to any transition limits.

From 1996 to 2008, employers were classified into industries using the Standard Industrial Classification (SIC). WorkSafeNB adopted the NAICS in 2009, as it provides a more current industry classification system that better reflects New Brunswick's industry makeup. While most employers felt little change, some employers were reassigned under NAICS to much lower or higher rate groups. Transition limits were applied to all employer accounts in 2009. The 10 employers most affected by the change continue to be capped by the same limits described above as they continue to work their way toward their group's basic rate.

## 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 its assigned rate group. Unlike the basic rate calculation that uses a five-year exposure period, only the three most recent complete years are included for experience rating. Payments, up to $62,500 per claim, are included for claims from 2012, 2013 or 2014. Fatalities are also charged with $62,500, 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 the experience rating program produces no significant revenues or expenses.

### 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.

### EMPLOYER VARIANCE

$$\frac{\text{Employer's Cost Ratio}}{\text{Rate Group's Cost Ratio}} - 1 = \text{Employer Variance}$$

$$\text{Where, } \frac{\text{Costs}}{\text{Assessable Payroll}} = \text{Cost Ratio}$$

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.

### RATE ADJUSTMENT

$$\frac{\text{Employer Variance}}{2.5} = \text{Rate Adjustment}$$

Employers receive a rate adjustment of 1% for each 2.5% variance from their rate group ratio. 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 all employers support the ongoing costs of the workers' compensation system.

About half of the registered employers have sufficient activity levels to participate in the experience rating program, but only 3% of employers reach the 100% participation level and can see either the full 40% rebate or 80% surcharge. In fact, less than 30 employers will reach those limits in 2016. The average participation level for the 43% of employers that are partially experience rated is roughly 35%. At that participation level, the maximum rebate would be 14% and the maximum surcharge would be 28%.

## Distribution of Assessment Rates

Most employers' assessment rates will be considerably different than the $1.11 average rate. In fact, only 6% of employers will be charged between $1.01 and $1.21. Net rates range from $0.16 to $6.44. Given the 2016 average assessment rate remains at the 2015 level, the rates of 6,600 (44%) employers will stay relatively stable, within 5% or $0.05. However, 4,200 (28%) employers with deteriorating accident cost experience will see rate increases. On the other hand, 4,100 (28%) employers with improved accident cost experience will see rate decreases.

A large proportion of the province's workforce is employed in lower risk industries. While 60% of the assessable payrolls are reported by employers with below average rates, they will only generate 25% of assessment revenue in 2016. On the other hand, 40% of assessable payrolls are reported by employers with above average rates, generating 75% of assessment revenues.

# 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. So, 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, which 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.

## Safety Achievement Financial Incentive System (SAFIS)

The board of directors approved SAFIS in July 2009, making the successful long-term pilot program permanent. Assessment rates for SAFIS participants are calculated in the same as the rates for all other employers. SAFIS is an additional level of experience rating available to large employers willing to take on more risk and responsibility for claim costs experience. Any employer paying over $500,000 in assessments may apply for participation in the program. Since the program can generate large refunds or surcharges, employers must provide proof of financial stability and may be required to pay an entry deficit before the application can be approved.

The SAFIS program does not have an impact on the overall revenue requirement.