SE·GA Workplace Consulting P.C. ADVISOR

Fall 2022 Newsletter

Year 4 of the Rate Framework is Upon Us!

The Annual Rate Framework Experience Rating statements were issued on-line November 1st and are for year 4 of the Rate Framework model (2016 – 2021 claims cost years). While the average premium rate is being held steady at $1.30 some individual rate groups will see a significant increase in the risk band 60 base rate.

What we have learned is very few people who are responsible for WSIB Claims Management understand these reports and even fewer can explain these results to Senior Management.

This is a critical point as the primary benefit of the Rate Framework Model (RFM) is WSIB premium rate predictability, both over the calendar year and on a go-forward basis as well.

The purpose of this article is to help the readers with explaining the costs of workplace accidents in RFM while also showing how employers can reduce the past, current and future premium rate(s).

NOTE: It is highly recommended you print these statements as the Board will remove these statements from your on-line Compass account after a period of time. The Year 1 reports from 2020 were removed in early October.

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Rate Framework: The 4% problem & The 96% Solution

The key to understanding the Rate Framework Model is to understand how claims costs are charged to your account.

RFM uses a 6-year experience rating window. The statements you will receive in October will determine your 2023 premium rate using accident costs incurred for the 2016 – 2021 accident cost years (with 2022 being the gap year).

	2016	2017	2018	2019	2020	2021
2016	150,937.90	63,756.03	13,881.91	1,282.73	0.00	0.00
2017		122,125.25	48,393.10	7,480.96	8,169.71	206.00
2018			125,145.16	93,151.92	32,432.20	21,154.33
2019				151,317.54	262,487.44	174,110.32
2020					164,802.39	301,403.36
2021						357,701.27

Let’s focus on data 2021 across/ 2021 down:

This formula utilizes 21 data points. The efforts of your company are to reduce both frequency and costs of current year accidents. That means you are putting all of your efforts into data point 21($357,701.27), or 4.76% of the entire equation. (1 data point of 21 or data point 2021 down and 2021 across)

As we are in 2022, all of your efforts are going into current accidents as well as your prevention strategies. This is absolutely the best way for your company to manage future rate increases except that these costs will not play a role in your premium rate calculation until 2024.

NOTE: We have called this the 4% rule, and not the 5% rule as current claims do not apply to your premium rate calculations for as much as two years and at a minimum 366 days.

Explaining Rate Framework to Senior Management: the arithmetic of RFM works both for and against your performance.

No matter how good of a job you do in the current year to minimize claims costs, your premium rate can only fall so much. No matter how bad you do in the current year with significant claims costs, your premium rate can only go up so much. The reason why this is the same in both outcomes: The impact of your claims cost history outweighs your current performance 24 to 1.

If the employer in the above chart had gone completely accident free in 2021 (eliminating 17% of their 6-year claim costs) their premium rate for 2023 would be 10% lower than their actual rate (Based on 2022 Premium Rates).

For a mid-sized or large employer, the probability of going completely accident free for an entire calendar year is very low.

However, the same result could be accomplished through successful cost relief appeals. Given that this company's 6-year life time claim costs are roughly $2.1 million dollars, the probability of eliminating 17% ($350,000) is possible. (Please note that everyone's case is different.)

Remember if this goal is obtained the company could have a 4-way win: 1. Potential for retroactive NEER adjustments 2. Potential for retroactive Rate Framework premium rate recovery 3. Potential for reduction in current year premium rate 4. Potential for reduction in future premium rates.

Most importantly perhaps we are not recommending companies employ this strategy on their own and should consider outsourcing:

1.) It is necessary to have medical expertise to link the injuries associated with the current accident against the worker's previous conditions.
2.) The risk: Unless you are successful in removing over $350,000 in claim costs all of your efforts will result in a pyrrhic victory – there will be no savings. To reduce your claim costs by that amount a company would have to achieve 50% cost relief on 10 claims with a minimum value of $70,000 over the 2018 – 2020 accident cost years (due to the weighting formula)
3.) Appeals tend to be a multi-year project and the true quantum of cost relief is often not obtained unless an appeal reaches the Tribunal
4.Companies tend to appeal the wrong claims. They tend to fight hardest on claims where they feel the worker received unjust benefits and ignore the (critical) medical arguments of the file.

The Other 96%

It The question is, what are we doing about the other 20 of 21 (95.24%) of your accident cost data?

It is strongly recommended every employer adopt a detailed cost recovery review – starting with at least the 2013 accident cost year as successful cost relief appeals produce a potential four-pronged impact:

- -A retroactive adjustment of premiums paid up to the month the decision is implemented
    - For a 2018 claim where the decision is reached in January 2023 your company would benefit as follows:
    - Recalculation and Recovery of excess premiums paid 2020 – 2022
    - Lowered premium rate in 2023
    - Lowered premium rate 2024 – 2025
    - Premium rate reduction into 2026 and beyond (after the claim leaves the six-year experience rating window)
    - NOTE: the base premium rate is expected to change on annual basis and the savings mentioned above are measured against the base rate for that specific year
    - Your current year premium rate is adjusted accordingly
    - The benefits of this decision will reduce your future year premium rates (or offset against future bad years) for the 6-year life of the claim
    - This benefit continues – indirectly – into year 7 and beyond

Rate Framework is very complicated. Talk to SE-GA to arrange a session with your management team to discuss the mechanics of the model, best practices for premium rate management, and the unique nuances of this model.

SIDE DISCUSSION – Does it make sense to provide wage top-ups in RFM like we did in NEER (or CAD-7)?

If you attend our WSIB Working Group meetings you will know this is a topic that has come up on more than one occasion.

NEER and CAD-7 had hard tipping points between inexpensive and costly claims and by providing full wages when workers were only able to work partial days was an accepted practice as it helped companies avoid those tipping points.

The 4% rule applies here as well: why put all your efforts into minimizing your current year claim costs – the only part of your premium rate where you directly impact future costs - when your management policies are going to inflate that amount? ***Unless your company is willing to provide 100% of pre-accident wages there are limited savings to providing modified work as the payroll you are saving in 2022 will be offset by a higher premium rate 2024 – 2029.*** However it is important to remember your OBLIGATION to provide modified work.

Using the example of an employer with annual WSIB premiums of $600,000 and a worker who earns $60,000 per year, and let's assume this worker is injured January 1st and can only work 4 hours of their normal 8-hour day for the entire calendar year.

If the company allows the Board to pay wages for the time not worked (as the worker must suffer no loss) the company will save $30,000 in unproductive wage expenses.

However, those costs will be applied to their premium rate calculations for the 2024 – 2029 premium rate years. It is reasonable to assume these additional, and avoidable costs, will increase this companies premium rate by 5% (one risk band) for 6-years – **AT A COST OF $30,000 PER YEAR FOR 6-YEARS.**

Payroll savings of $30,000 in 2022 will cost this company $180,000 between 2024 and 2029.

How to determine the benefits of Cost Relief

One of the advantages of moving forward in the rate framework model is we can see how the model has progressed over time.

When the model was launched (in 2020) 2018 was the highest weighted year as all 6 years of (2013 – 2018) accident cost history applied and at the weighting factor of 2/9th.

Once we receive the statements for the 2023 premium rate year the 2018 accident cost year will have moved to the 1/9th weighting factor and will only have three years of accident cost history remaining.

NOTE: This data was taken from the Claims Detail Statement (Please note this chart is for illustration purposes)

Using the example of a costly 2017 claim (for 2022 premium rate calculations):

	2015 & 16	2017	2018	2019	2020	Total
2017	0.00	36,337.59	39,443.35	10,536.01	547.40	86,854.36
Weighting	1/9	1/9	2/9	2/9	2/9	
Weighted Total	0.00	4,037.51	8,765.18	2,341.34	121.64	15,265.68

Let's look at this same claim with 50% cost relief applied to all claim costs, but for 2023 premium rate calculations:

	2016 & 17	2018	2019	2020	2021	Total
2017	18,168.80	19,721.68	5,268.00	273.70	0.00	43,427.18
Weighting	1/9	1/9	2/9	2/9	2/9	
Weighted Total	2,018.76	2,191.30	1,170.67	60.82	0.00	5,441.55

The question is does the decrease in Weighted Claim Costs of $9,824.13 serve to lower this company's premium rate (reduce their weighted claims cost enough that it moves company down 1 risk band)?

NOTE: the reason the weighted claim costs in example 2 are not 50% of the weighted claim costs in example 1 is the 2018 accident cost year has moved from the heavy weighted (2/9th) part of the formula to the light weighted (1/9th) portion

The answer is it depends on the size of the company and how much cost has to be removed in order to achieve this goal (Please note that everyone's case is different). As a simple rule, based upon Insurable Earnings:

	Number of Cost Relief decision to move down one risk band
For a small employer:	1 -2
For a medium employer:	3-5
For a large employer:	5+

The key to remember is every risk band represents a 5% change in premium rate.

	Annual Savings by reducing your risk band By 1
Premiums of $200,000/yr:	$10,000 (6-year Total: $60,000)
Premiums of $500,000/yr:	$25,000 (6-year Total: $150,000)
Premiums of $1,000,000/yr:	$50,000 (6-year Total: $300,000)

By sitting down with your SE-GA representative and using examples from your experience rating statements to show you the calculation of how using the 96% solution will create recoveries and future savings for your companies.

We suggest booking a session after you receive your 2023 statements in Fall 2022.

NOTE: We have great tools to show your company the opportunity of cost relief. This tool also provides great analytics of performance and future premium rates

2023 Educations sessions – Dates to be Announced

Visit our website at https://segaconsulting.com/seminars/ to learn more.

If you haven't attended a Working Group Lunch and Learn session, hosted in conjunction with the WSIB's Stakeholder relationship team please join either our Healthcare group (2nd Wednesday of the month) or Manufacturing/other Industry group (4th Wednesday of the month).

So far this year the presentations have included:

- -the Board's On-Line claims portal
- The Compass Tool
- The "By the Numbers Tool"
- Presentations by:
  - Eligibility Adjudicators
  - The Mental Health Claims Team
  - Experience Rating

Do you have questions about Rate Framework, the premium recovery issued this spring or any WSIB question?

Please call 416-463-7342 ext. 4 or send a note to info@segaconsulting.com

SE-GA Workplace Consulting P.C. is a legal services firm specializing in WSIB Cost Management for Employers.