SE·GA Workplace Consulting P.C. ADVISOR

Summer 2022 Newsletter

"NEER Thinking" leads to long term problems in the WSIB's Rate Framework model!

As we complete the first two and half years of life in the Rate Framework Model (RFM) our team is still asked many questions that come from the NEER era....such as "when will I see our rebate for 2021?" or "why am I no longer seeing quarterly NEER statements?".

This is concerning as applying NEER claims management techniques to rate framework claims can be a very costly error.

There are fundamental differences between the two experience rating models:

How are claim costs charged to our account differently in the two models?

NEER: The cost of the claim was charged exclusively to the year of the accident. Even if the claim drew costs throughout the four-year experience rating window of NEER, all costs were charged to the accident year

RFM: The cost of the claim is charged to the year that incurs that cost *for the full six-year life of the claim.*

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Why does this matter?

Many employers' strategy (dependent on each circumstance) was to manage costly **NEER** claims up to the point where the company would pay the maximum surcharge (performance index of 4.00*) for that year, or the claim exceeded the maximum allowable claim cost, and once that amount was achieved, they would consider alternative strategies within applicable WSIB compliance.

This was a beneficial NEER strategy as the WSIB assigned these additional costs to the rate group as a whole but could not charge any additional cost to the accident employer. (Once the bucket is full of water you can keep the tap running but you can't put anymore water in the bucket.)

In **RFM** this strategy would be an extremely expensive error! The costs of the claim – for the six-year life of the claim – are charged to the year the Board pays the Loss of Earnings to the worker or the benefits to the health care provider.

Real World Example: An automotive parts supplier with roughly 400 employees allowed multiple 2019 claims to be placed into Work Transitions services as they determined it was more cost effective to incur a roughly $90,000 NEER surcharge than to provide modified work to 4 employees with significant workplace injuries. Remember in NEER this was a one-time penalty and they would have started the subsequent year at the maximum rebate position IF NEER HAD CONTINUED.

<u>For 2020 – the first year of RFM</u> - This company earned a risk band 57 placement and their premium rate was a 15% discount from the class rate.

These claims started affecting their premium rate in 2021, and will continue to do so until these claims age-out of the six-year model in 2026.
The cumulative impact of these claims will drive this employer up 9 risk bands (each risk band represents a 5% change) in both their 2021 and 2022 premium rate as they are projected from risk band 57 to 66 to 75.

NOTE: there are limits to risk band changes on a per year basis in the RFM model. Please speak to SE-GA to discuss claim cost limitations and maximum risk band changes during the implementation phase of the new model.

As a result, this company's annual premiums are projected to almost double from their 2020 initial amount by the time these claims leave the six-year window due to how this company applied "NEER thinking" to Rate Framework era claims.

Cumulative Claim Costs

In **NEER** claims had an individual impact to your rebate/surcharge calculations.

In **RFM** however it is the cumulative six-year claim costs that determine your annual premium rate (risk band).

Real World Example – using the impact of cost relief

In **NEER** if a claim received cost relief the claim cost was recalculated as was determined by the percentage of cost relief.

If a claim had a cost of $100,000 and the company had a rating factor of 70% - and the appeal of cost relief obtained 50% - the savings to the company was $35,000.

This is true as in NEER each claim was a unique data point and the sum of those data points was the determining factor in whether your company received a rebate or paid a surcharge.

In **RFM** the impact of cost relief on one claim is unlikely to change your annual premium rate. This is due to how RFM uses a weighted model to reduce your cumulative claim cost to a weighted claim cost.

For medium sized employers it could take as many as four claims with 50% cost relief to reduce to your current risk band to one lower (an annual savings of 5%). For large employers it will likely take 7 – 10 successful cost relief appeals to lower your risk band.

Cost Relief is a critical premium rate management tool – in both the short and long term – but it does produce the same financial results as in NEER.

Rate Framework is very complicated as we strongly recommend meeting with your SE-GA representative to provide an object review of your performance relative to your peers, your expected future premium rates and the best practice recommendations for improving your performance.

Is there a Return on Investment to WSIB Consulting?

The majority of consulting services are proposed to prospective clients as return on investment solutions. The question is does this practice apply to WSIB claims management solutions?

This is an area where employers should be skeptical of their service providers argument as successful claims management avoids future lost time but it is impossible to emphatically say how many weeks or months of lost time was avoided due to a successful modified work assignment to an injured worker.

As discussed earlier in this publication RFM utilizes a cumulative cost model that is weighted based upon when claim costs are charged to the employers account.

A second, and equally important factor, to determining your premium rate is your level of Actuarial Predictability – or employer level of responsibility.

Actuarial Predictability (AP) is 75% determined by your cumulative six-year insurable earnings and 25% by your cumulative six-year claim count.

For a company with 50% AP their six-year weighted claim cost (WCC) has to increase by 10% for their premium rate to increase 5% (1 risk band).

Using this example your actual cumulative six-year claim costs would have to increase by $22,500 from one year to the next in order for your premium rate to increase by 5% (one risk band).

If your annual premiums are $500,000 and your service provider – at a retainer fee of $2,000/month - helped you avoid an increase of 5% ($25,000 for the year) then your company is net ahead $1,000 or a return on investment of 4%.

Premium Surplus Reimbursements

In April of this year most companies received a reimbursement from the WSIB of 30% of their annual 2019 or 2020 premiums (which ever was greater). This reimbursement was due to the WSIB's stock market portfolio outperforming expectations and as a result the Board was overfunded by roughly $1.5 billion dollars. The Provincial Government ordered the WSIB to repay Ontario employers this overage.

There is much confusion about this reimbursement as many employers think this is a performance-based recovery – such as the old NEER (or CAD-7) rebates. It is not; it is a one-time reimbursement of premium overpayments and should not be confused with any other performance metrics.

LinkedIn WSIB Working Groups

In the summer of 2021 SE-GA launched a working group for Ontario Hospitals to discuss their claims management strategies and to benefit collectively from other Hospitals that provide insight into successful complex claims management.

This successful model was expanded in 2022 to include Manufacturing, Trucking and Long-Term Care. These groups meet once a month and every session includes a learning opportunity. Thus far in 2022 the Presentations have included:

- WSIB 101
- The WSIB's Mental Health Claims Team on the Management of Mental Health Claims
- Using both Compass tool and the Board's employer portal
- Instruction from an Entitlement Officer from the Board to review eligibility criteria for benefits.
- The "By the Numbers Tool"
- Experience Rating

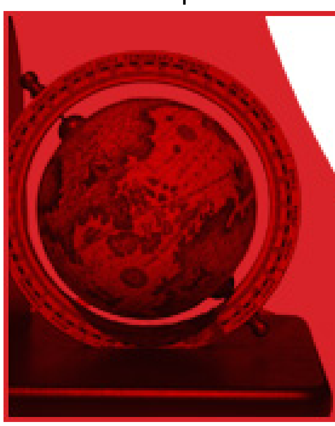
Every employer is invited to join the best group for their company as these virtual meetings are free to all attendees. To attend a session or join the group, please send an email to info@segaconsulting.com with LinkedIn Working Group in the subject line.

Next sessions:

- **September 14th 11:00 am: Hospitals & Healthcare**
- **September 28th 11:00 am: Transportation, Manufacturing & Construction**
- **October 12th 11:00 am: Hospitals & Healthcare**
- **October 26th 11:00 am: Transportation, Manufacturing & Construction**

In our next issue we will be announcing webinar and live seminar dates for November as well as introducing the concept of how Employers focus on the 4% problem and not the 96% solution.

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



SE·GA Workplace Consulting P.C.
www.segaconsulting.com

3-1750 The Queensway
Suite # 1287
Toronto, ON M9C 5H5

T: 416-463-SEGA (7342)
F: 647-349-8927
info@segaconsulting.com