SE·GA Workplace Consulting P.C.

ADVISOR

Feb, 2017

It's a new WSIB Year and the end of the CAD-7 and NEER experience rating programs are almost here. Is your organization prepared?

Late last year the WSIB announced that a new Experience Rating program would begin in 2019 so that every Ontario employer would be under the same experience rating system.

Unlike NEER and CAD-7, which are retrospective programs where employers either pay a surcharges or receives a rebate based upon their prior claim cost experience, the new program will be prospective, like the MAPP program for small Ontario employers. Most provincial Worker's Compensation Boards in Canada use some form of a prospective model.

The WSIB is positioning the new program as paying the right price for your insurance:

- If you received a rebate this year your premiums were too high!
- If you paid a surcharge this year your premiums were too low!

The new program will change everything and at this time there are many facets that are still unknown. This is what we know right now:

Rate Groups: One of the first changes employers will notice is that they will be moved into a new rate group as the WSIB is decreasing the number of rate groups from 175 to 34. Fewer rate groups means more companies per rate group which spreads risk across a larger pool of premiums.

Originally the WSIB decided to end the practice of allowing companies to contribute to multiple rate groups and would only contribute to the rate group of their primary business activity. However the Board uncovered many examples (such as Corporations that operate as one entity but has a furniture store and a funeral home under that entity where the businesses are separate) that do not fit the "one-rate" model. At this time we are awaiting a WSIB decision on this matter.

Premium Contribution: The new rate groups will have a base premium that Employers will be evaluated against. Employers with good performance will pay less than the posted rate and organizations with poor performance will pay higher than the posted rate.

Because the pool of employers per rate group is much larger than in prior programs, many employers will see a significant drop in the premium rate for their industry.

However that does not necessarily mean the premiums your company will pay will go down.

At a recent Rate Reform information seminar the WSIB used the Ontario Roofing rate group to demonstrate the premium contribution model. In 2016 Rate Group 728 paid a premium of $14.80/$100 of payroll but every company in Rate Group 728 paid the same rate. The system was adjusted for performance with rebates and surcharges as with every rate group.

Under the new program the base rate will fall to (projected) $9.00/$100 of payroll. The prospective system uses a company's prior claim cost history to determine their "right price" with the best performers paying as low as $6.00/$100 0f payroll and the companies with significant costs paying up to as much as $29.00/$100 of payroll.

It is anticipated there will be between 40 and 80 price points within each new rate group.

Structure: When the program launches in 2019 your company's premium contribution will be determined by your direct accident costs from 2012 – 2017. In 2020 the system eliminates 2012 from your calculation and adds the costs from 2018.

NEER: Only the actual cost of the claim (Past Discounted Awards) applies to this calculation, thereby eliminating the Projected Future Costs and Overhead Costs from the calculation.

CAD-7: Only uses the actual costs of the claim but the Frequency cost will be eliminated

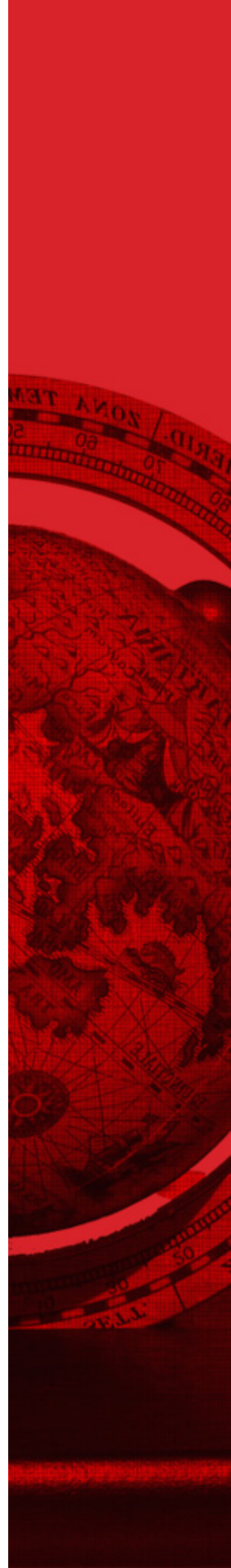
The system will place more weight on the most recent years of claim costs (2/3 for the most recent 3 years and 1/3 for the oldest years in the cycle)

The biggest difference will be the amount of years a claim can affect your cost structure. For minor claims, the cost of that claim will be part of your claim for all 6 years of the program. However major claims can take as many as 11 years to exit your claim cost calculation.

Price Volatility: On a year to year basis there will be relatively little movement in a company's premium contribution as the program restricts movement to (up or down) 3 risk bands per year. However an accident where the worker requires retraining so that they can re-enter the workforce could move a company up 3 risk bands every year for 6 years.

What we don't know yet: The WSIB has yet to release the mathematical formula that will determine a company's starting point in the new program and perhaps more importantly how companies will move within the **RISK BANDS** on a year to year basis. In SEGA's opinion the critical piece for all employers will be to ensure entry into the new program at the lowest possible premium rate.

What we do know right now: Employers have 2017 and 2018 to work on improving both their prevention and return to work programs so that they are best position possible when the new program is launched in 2019.



Every Ontario company should also take a hard look at their prior claims cost for every costly claim from 2012 to the present. The successful application of cost relief on these claims will help to lower your total premium costs in the new program.

The new system follows the same Best Practices model as with the prior retrospective programs:

Low accidents costs will lower your premium contribution

- **PREVENTING** new accidents
- Putting injured workers into **MODIFIED WORK** programs as quickly as possible
- Seek **COST RELIEF** for costly claims

What this means for your company: This change, for better or worse, will affect every Ontario Company.

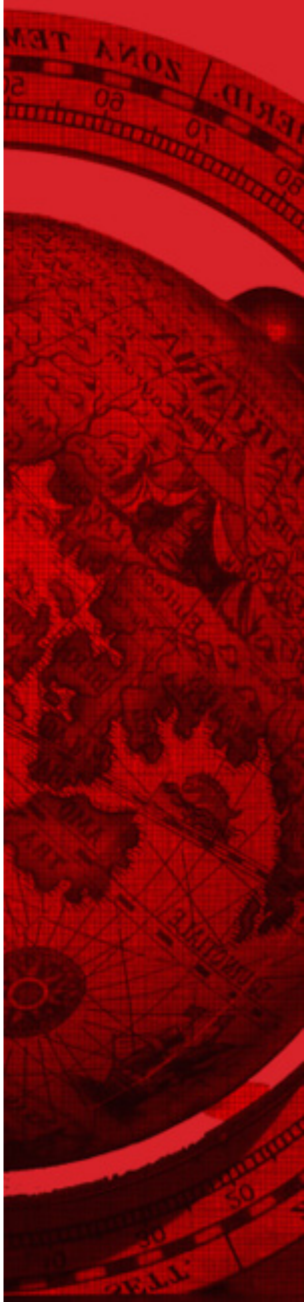
Employers that sign contracts involving commitments into future years (such as Transportation, Construction, Facilities Management and others) will need to pay very close attention to their claim costs beginning in 2017. These companies will enter into these contracts with an assumption of their premium costs as a fairly constant fixed cost.

A company that will bid to provide services in 2019 under a 3 year agreement could see their WSIB premium contribution fall by as many (or increase by as many as) 9 price points during the length of the service agreement. This will create a significant COMPETITIVE ADVANTAGE for good performers as they can bid at lower rate than companies that will have higher fixed WSIB costs.

Account Monitoring: Many companies do not review their monthly accident cost statements as a means of projecting future year rebate/surcharge outcomes.

Account Monitoring and Financial Projections will be a critical tool for budgeting, bidding and projections in the new model. For more information about how SE-GA can help your company please click this link:

www.segaconsulting.com/contact with RATE REFORM in the subject box



What to ask before you begin a WSIB Appeal

In late 2016 SE-GA met with a Southern Ontario employer with roughly 100 employees to discuss their NEER claim cost history. The company has an existing relationship with another WSIB Consultant but agreed to the meeting because the Health and Safety Manager had worked with the SE-GA team previously.

The company started off by expressing how happy they were with their existing service provider as that company had just gained 50% cost relief (SIEF) on a claim at the TRIBUNAL (WSIAT) that was VERY costly. They went on to explain that they felt this worker had "taken advantage of the system" as they had reason to doubt his injuries were related to an actual workplace accident.

An examination of their NEER statement revealed a very different picture. This company had a maximum allowable NEER cost for that accident year of roughly $80,000 dollars. Unfortunately for the accident year in question, claims costs were exceptionally high and there were 2 additional claims, both with claim costs in excess of $80,000. The claim they were concerned with had a cost in excess of $400,000 before the SIEF award reduced the cost of the claim by 50%.

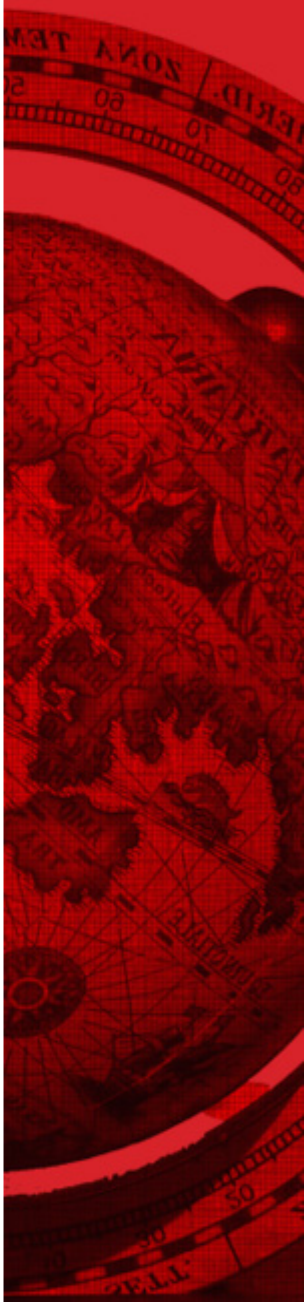
The net result of the application of 50% cost relief against that claim was that the company saved $0.00.

The company hired this consultant on an hourly basis with the instruction to appeal the claim because they felt the claim had been poorly adjudicated and that it was unfair that this claim was charged against the company.

Unfortunately the company did not ask what the net result (actual savings) would be if they were successful in this appeal. Even though they "won" the decision they sought, they are actually worse off. Not only did they not save any money from this decision they also had to incur the consultant's hourly fees. Additionally, this does not include the soft costs of the time invested by the company's staff to participate in this appeal.

Before your organization begins an appeal, whether it's to object to a WSIB decision or participate in an appeal launched by a worker, always consider "What is the financial impact of the gaining of a successful decision?" before beginning the process.

The mistake this company made was they assumed a successful decision would automatically mean a financial windfall. The company saved Accident Costs but that savings did not translate into a real dollar savings via a reduction of their NEER costs.



Costly Tipping Points for WSIB Claims!

The NEER 6 Day Rule

Don't Get Caught with Unnecessary WSIB Claims Costs in 2017!

If you are a NEER employer, remember the 6 day rule:

There are three costs to a claim:

- Past Discounted Awards (PDA) is the actual spend by the WSIB
- Projected Future Costs (PFC) is money reserved by the WSIB
- Overhead Cost Factor (OCF) WSIB administration charge
- Adding these three costs together gives you the Limited Claim Costs (LCC) of a claim.

Using this example: A worker is compensated by the WSIB at a rate of $200.00/day, and the company has a 50% overhead Cost Factor.

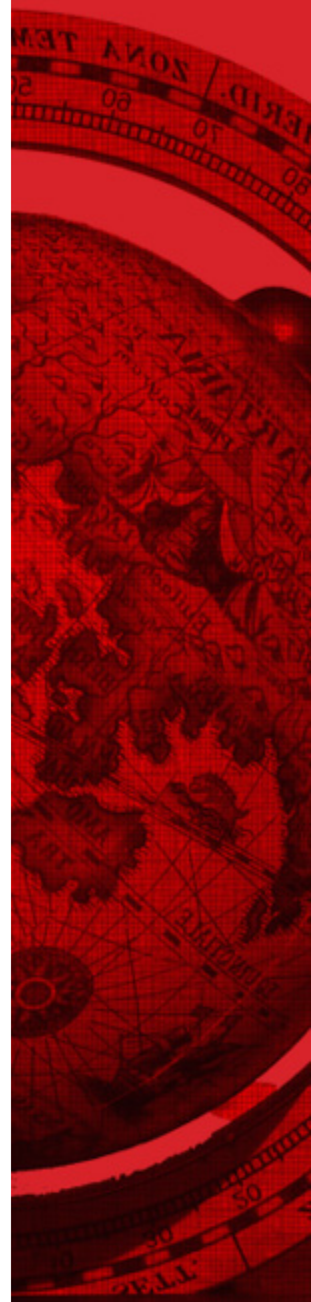
Day 5: Total Cost of the Claim is: $1,000 PDA + $0.00 PFC + $500.00 OCF = $1,500 LCC

On Day 6 the WSIB begins to reserve money against the total cost of the claim. The Total Cost of the Claim is: $1,200 PDA + $9,600.00 PFC + $5,400 OCF =$16,200 LCC

In order to maintain low claim costs it is critical that modified work be offered immediately so that the employer can pay the employee directly their normal daily wages.

A claim that went on to day 6 cost this employer an additional $14,700.00. NOTE: This is actually a conservative estimate. SE-GA demonstrate the financial impact of this type of claim specifically by using your NEER statement

For more info on this article visit: https://goo.gl/WFUUbz



THE CAD-7 8 DAY Rule

- Lost time frequencies are charged to an employer when a worker misses 8 days or more of lost time due to a workplace injury

•The average cost of a CAD-7 frequency is approximately $32k. We can provide specifics

For additional info on this article visit: https://goo.gl/Pfux55

For more about NEER or CAD-7 attend one of SE-GA's 2017 seminars on Experience Rating:
www.segaconsulting.com/seminars

Seminars will be focused on:

- Managing claims with Rate Reform in mind
- Claims management in NEER/CAD-7
- Understanding RTW
- Understand your experience rating statements
- Forecasting your next rebate or surcharge

......Here are some quick reminders on how to control claims costs

Most read articles:

39 Ways to Reduce your Workers' Compensation Costs!
https://goo.gl/uiTYCa

15 Cost Avoidance Strategies to Jumpstart your RTW Program!
https://goo.gl/DREqFq

Coming in March 2017, our next newsletter will discuss SEGA's recent successes at the Tribunal (WSIAT) and how your organization can use appeals to prevent future costs.

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