ISE-GA Workplace Consulting P.C. ADVISOR

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Rate Reform in Ontario &Manufacturing: It's about Money & Time!

If the WSIB stays on track, Ontario will have a universal experience rating program beginning in 2019. The impetus of this change was to reduce the number of rate groups from 155 to 34. Manufacturing will fall under one of the following 6 new rate groups:

D – Food, Textile & Related Manufacturing

E1 – Non-Metallic & Mineral Manufacturing

E2 – Printing, Petroleum and Chemical Manufacturing

F1 – Metal, Transportation & Furniture Manufacturing

F2 – Machinery, Electrical & Other Manufacturing

F3 – Computer & Electronica Manufacturing

Unlike the NEER program where companies within the same rate group (often competitors) pay the same premium rate and individual results were determined by performance (annual rebates and surcharges) every company will have an individualized premium rate set by their prior six years' experience (For 2019 the WSIB will use the 2012 – 2017 direct accident costs to determine your Company's individual rate).

Until now, many Ontario employers viewed NEER as the cost of doing business.

With Rate Reform WSIB premiums will be directly tied to Labour cost/Dollar cost per hour!

For this example we will use Rate Group 428 Motor Vehicle Fabric Accessories.

In 2017 this rate group pays a WSIB premium of $4.00/$100 of payroll. Companies currently in Rate Group 428 will move to F1 – Metal, Transportation & Furniture Manufacturing

Based upon the WSIB's projections for 2019 there will be as many as 19 price points within this rate group with the following parameters:

- Lowest Premium Rate: $ 2.59

- Base Premium Rate: $ 3.70
- Highest Premium Rate: $ 6.33

Therefore if we take 2 competitors who both have $10,000,000 in annual payroll and assume one company will be at the lowest price point (Company A) and the other will be at the highest price point (Company B).

Company A's annual premiums: $ 259,000

Company B's Annual premiums: $ 633,000

Obviously Company A will have a lower overall cost of labour per hour compared to Company B.

Ask SE-GA to demonstrate what your new rate group will look like.

The WSIB's documents for this rate group indicate there will be 7 price points below the base rate with another 11 price points above the base rate.

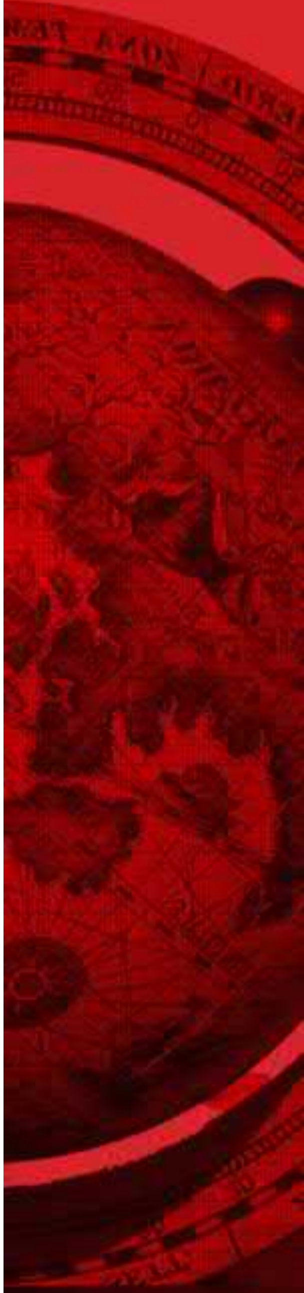
There are many differences from the NEER program that will be beneficial to every Ontario employer:

- In Rate Reform, only actual claim costs will be used
    - The end of Projected Future & Overhead Costs
- Real budget number for WSIB Expenses
    - No offset based upon Rebate/Surcharge
- Even greater incentive for good performance
    - Direct ROI calculation for investment in prevention

However there is also far greater risk with the new program as well:

- All costs (loss of earnings, pension and health care) will be treated equally
- 6 year Experience Rating Window
    - NEER was 4 years
- Linkage between Claim years
    - NEER – fresh start every year
    - New – all 6 years claim costs used to determine premium rate
- Limited movement in price point on a year to year basis
    - Organizations can only move up or down 3 price points per year – limited upside/limited downside
    - However a good year will only impact 1 year
    - A bad year can affect as many as 11 years (directly for 6 years, trailing costs for 5 additional years)
- Companies will need to know their rate not only for the current year but for future years as well
    - Budgeting
    - Pricing

In summary, the new program brings far more risk and uncertainty than most observers expected.



How will costs be charged to our company?

In the new program costs will be assigned to their accident year and the years will be weighted in this manner:

Assuming the program starts in 2019

2012	2013	2014	2015	2016	2017
	2013	2014	2015	2016	2017
		2014	2015	2016	2017
			2015	2016	2017
				2016	2017
					2017

The formula is weighted to the most recent years (15-17) having 2/3 weight with the prior years (12-14) having 1/3 weight.

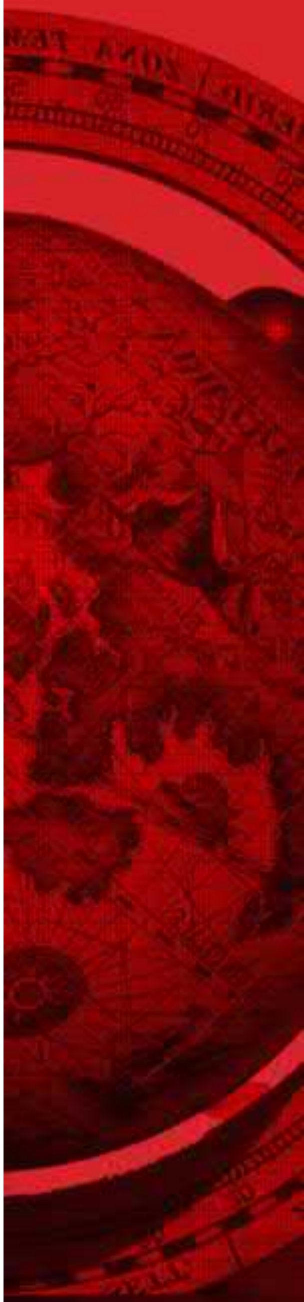
There will always be a gap year (2018) and in 2020 the experience rating window will be the 2013 – 2018 accident cost years with 2019 as the gap year.

As said previously in the NEER program, costs were exclusively charged to the year of the accident. As a result many companies managed new claims according to the calendar: If they knew they were going to be at their NEER maximum costs early in the year, the company would be less diligent about providing modified work for the remainder of that year.

In the new program that philosophy will prove disastrous! The claim cost limits will be very different in the new program as only the actual (Loss of Earnings supplements – including pensions - and Health Care) costs will be used to determine premium rate calculations. Companies will have to manage all claims in order to minimize the cost of every claim in order to avoid spikes in their premium contribution rate.

The cumulative impact of a costly claim

One of the selling points of the new program to Ontario employers is reduced volatility



of their WSIB expenses. Any company that has paid a large and unexpected surcharge will trumpet this change.

While this is true there is far more downside to this change than most employers expected. Companies that have an especially low cost claim year can see their premium rate drop by 3 price points per year. In order to drop another 3 points in the following year they will have to repeat that excellent performance.

Unfortunately a very costly claim (permanent disability or the need for retraining) will increase a company's premium contribution rate by (up to) 3 price points per year. However it is rare that a claim of this nature will have claim costs limited to the year of the accident.

THIS IS A VERY POSSIBLE CLAIM IN MANUFACTURING DUE TO THE HIGH NUMBER OF PERMANENT WORK TRANSITION CLAIMS IN MANUFACTURING.

A claim as described in this scenario could drive up the premium contribution rate by 3 price points for as many as the full 6 years of the experience rating program. Unfortunately a company can only improve by minus 3 price points a year. Therefore this type of claim would require as many as 11 years to exit a company's premium calculations.

Year 6

Year 5 Year 7

Year 4 Year 8

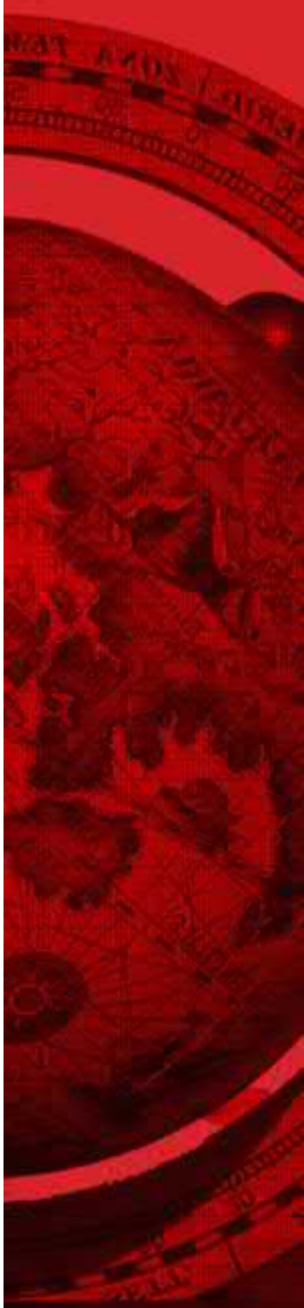
Year 3 Year 9

Year 2 Year 10

Year 1 Year 11

Using the graphic above consider the following:

- Assume Company A enters the new program at the lowest premium rate and has a claim that will require full Work transitions services that will cause the maximum premium increase of 3 price points per year
- Costs won't fall of the cliff – costs go uphill, then downhill
- This company's premium rate will increase for 6 years and while costs will start to decline in year 7 it will take until the end of year 11 for this company to return to their original 2019 premium rate
- If each price point equals $10,000 in additional premiums one costly claim could increase total premiums for that period by $1,000,080.00!



It's all about where you start! or Time equals Money

Organizations that enter this program below the base premium rate will have significant savings not only because they will see a direct premium reduction but also because they will gain years.

For example, ABC Manufacturing has consistently earned NEER rebates and will enter the new program at 6 price points below the base rate, and they have no new claim costs that allow them to maintain that premium rate on an ongoing basis.

Compare that to XYZ Manufacturing who enters the program at the base rate and strives to reduce their premium costs by 3 price points per year. It would take that company 2 years to be 6 price points below that base rate.

If both of these companies pay $1,000,000 in NEER premiums (and the drop in 3 price points reduces premiums by 10%) then ABC would have lower WSIB premiums of $300,000 over the first two years of the new program compared to the second Company.

	ABC Trans.	XYZ Trans.
'18 NEER premiums	$1,000,000	$1,000,000
'19 premiums	$ 800,000	$1,000,000
'20 premiums	$ 800,000	$ 900,000
'21 premiums	$ 800,000	$ 800,000
Total premiums	$2,400,000	$2,700,000

ABC would be have the flexibility to able to offer lower pricing while maintaining their profitability. XYZ would have to lower their pricing to compete and would see a lower profit margin.

What can my company do to prepare for the new program?

It is our recommendation that every Ontario employer do two things:

- Review your Best Practices for Prevention and Return to Work Initiatives
    - Study your prior claims
    - Look for gaps in reporting or administering claims that led to costly delays
    - Be prepared to accommodate very restriction
- Seek Cost Relief on every costly claim from 2012 – 2017
    - The removal of cost from your prior claims may be your best avenue to lowering entry point into the model

- o Cost Relief will not only save your company money it will move it years forward as well
- o This may also include opportunities to Transfer Costs from a prior claim to a client. While this would have been unheard of in the NEER program it may be a crucial tool in the new model as the cost of “keeping” a claim, while keeping that client happy, could prevent you from gaining/keeping other clients

We strongly recommend every Ontario employer review their claim cost history for 2012 – 2017 and seek COST RELIEF wherever possible.

Not only will it improve your NEER performance it will place your company into the best position possible for Rate Reform.

If SE-GA could reduce your claim costs enough to reduce your premium point by 6 basis points, the benefits will be twofold, not only will this reduce your premium contribution it will move your company forward 2 years!

Perhaps the best way to illustrate the importance of this change is to look at the in-house NEER seminars SE-GA has held at various organizations, including Manufacturing companies, in recent years.

In the past these session were almost exclusively attended by the Human Resources and the Health & Safety teams. Now that “Rate Reform” has become official, the number of attendees and different stakeholders at these sessions has grown dramatically. The type of personnel in attendance include:

- Chief Financial Officer
- Director of Operations
- Director of Nursing/Patient Care
- Individual Department Heads
- Manager of Payroll

SE-GA has public NEER sessions coming in May 2017 and we can also present to your key personnel at your company as well.

For a video that explains the first page of NEER please contact our office at info@segaconsulting.com

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