

# Ontario WSIB 2020 Rate Framework – Business Opportunities



The Workplace Safety and Insurance Board (WSIB) will be implementing changes in January 2020, which overhaul the current classification rate structure and experience rating programs. These are significant modifications. Employers will be held more accountable for individual claim experience, over a longer period of time. Business will need to revamp risk management strategies and re-align resources to fully benefit from cost saving opportunities under this new model.

### NAICS Classification

The 'North American Industry Classification System' (NAICS) will replace the present Standard Industrial Classification (SIC) model. Under NAICS, employers are grouped into 34 industry classes. Most employers will be assigned only one NAICS class code that corresponds to the employer's predominant business activity.

There are exceptions to single classification. Multiple NAICS classification may be granted if an employer's non-predominant business activity is both 'significant' and not 'integrated' with the employer's other operations.

A business activity is 'significant' if one of the following conditions is met:

- Having a payroll at least five times the WSIB annual maximum insurable earning, or
- Representing at least 20% of the employer's total annual insurable earnings.

The Board considers two operations as being 'integrated', if either of the following applies:

- Substantial portion of employees or processes of the one operation is combined with the other business activity, or
- The products/services of each operation are included together, as a single offering to clients

A number of planning strategies are available to establish that two business activities are not 'integrated'. This operational independence is important – if multiple business activities are integrated, the NAICS code with the highest premium rate will apply to the integrated activities.

### Classification Savings

Being in the correct classification grouping is essential, as this drives an employer's premium contributions. In early 2019, the Board notified each Schedule 1 employer of its classification details, including its applicable 6-digit NAICS code(s), industry class/subclass, and predominant class. An employer should evaluate their NAICS code assignment, to ensure the WSIB classification grouping appropriately reflects its business activities. This due diligence review is particularly important if there are significant rate differences between assigned vs. correct industry classes.

Organizational and business process changes can affect rate classification. A 'material change in circumstances', such as a merger-acquisition or restructuring, can often trigger new opportunities to reduce overall premiums. However, before pursuing a WSIB request for adjustment, an employer should evaluate possible downside risk that may offset any upside benefit of reclassification. A risk assessment, similar to steps taken in a WSIB revenue audit, will confirm compliance in all areas of premium reporting, and mitigate any downside risk.

### How Rates are Determined

An employer's claims experience, including claim costs and number of claims over six prior accident years ('review period'), defines the employer's premium rate. Greater weight is given to the most recent three years, with less weight assumed by the latest three years of a review period.

Two steps are taken to determine an employer's rate. Firstly, the Board calculates the 'class average premium rate', based on the class risk profile. An industry class has several 'risk bands', each band with a separate rate, either above or below the class average premium rate.

There is about a 5% rate difference between two successive risk bands.

The second step of the rate setting process involves establishing an ‘employer projected premium rate’, by considering the employer’s individual historical claims’ experience, in comparison with all employers grouped in the applicable class. The projected premium rate provides the employer with an indication on what direction future rates are headed towards.

An employer may not necessarily pay premiums at its projected premium rate in the upcoming year – there are provisions to gradually move an employer into its projected premium rate from the ‘employer actual premium rate’. After full transition into the new model, an employer can move up/down as much as three risk bands annually, resulting in about a 15% maximum rate change limit annually.

### Level of Individual Accountability

Larger employers are held more accountable for individual claims experience – a common feature of collective liability insurance. The WSIB applies a ‘predictability grouping’, based on employer payroll size and claim count. In principle, past claim experience is more reliable to predict future experience for a larger employer, with a smaller employer having less predictability.

The larger the payroll, the higher the ‘predictability’, the more accountable an employer is held responsible for its individual experience. Predictability can range from 2.5% for a small employer, to 100% for a large employer. For example, for an employer with 30% predictability grouping, the premium rate considers 30% of the employer’s claim experience and 70% of class experience.

Risk band limits are also established based on predictability grouping. The risk band limit puts a cap on how much an employer’s actual premium rate can move above the class average premium rate.

The following risk band limit caps are in place:

Predictability Grouping	Maximum Number of Risk Bands Above Class Average Risk Band	Percent Above Class Average Risk Band
2.5% predictability	6 risk bands	30%
5% predictability	9 risk bands	45%
10% – 100% predictability	23 risk bands	115%

In addition to determining accountability for individual claim experience and capping risk band movement, predictability grouping will also determine the claim cost limit for the employer. A claim with costs exceeding the Per Claim Cost Limit is not included in determining the employer's claim experience. These costs are the collective responsibility of the insurance fund.

The Per Claim Cost Limit is based on WSIB annual maximum insurable earnings (Max IE) of an injury year, and ranges from '2.5 X Max IE' for an employer with a 2.5% predictability grouping, to '7 X Max IE' for large employer with a 100% predictability grouping.

Although insurance pooling provides some protection for an employer with excessive accident costs in a particular year, individual cost accountability can be very significant under the new rate framework. This heightened responsibility underscores a business case to invest human and capital resources to prevent injuries, and contain costs through effective claims management practices.

### Poor Experience Performance

An employer that has poor experience compared to the class experience can be held even more accountable for their individual costs. WSIB policy defines 'poor experience' performance as an employer with:

- A projected risk band (employer projected rate) that is greater than the employer's risk band limit (per above predictability grouping caps), or
- There is over a 20% difference between the employer's projected risk band rate and the employer's actual risk band rate.

Where an employer is identified as having poor experience, the WSIB may pursue a 'health and safety engagement' with the employer, providing resources to improve performance. If there is no performance improvement after two years, the Board can increase claim cost accountability beyond any risk band limits, resulting in an increased premium rate.

Consequently, it will be important to not hit the 'poor experience' thresholds, as the WSIB will become involved in evaluating the employer's health, safety and return to work programs/practices. Moreover, poor performance will trigger premium rate increases.

### Transition Rules

For 2020, A 'Starting Point Rate' is based on an employer's 2019 rate group premium rate, along with factoring in the employer's experience rating adjustments in 2016-2018. For example, under the NEER program, an employer's total premiums paid in 2016-2018 calendar years, along with total NEER adjustments received over this period, are considered in determining the net premium rate (2020 Starting Point Rate). A 'Projected Premium Rate' (risk band rate) is then determined for 2020, based on employer's 2013-2018 claims experience.

The WSIB will be issuing notifications to each employer in the Fall 2019, to confirm the employer's 2020 'Starting Point Rate' and 'Projected Premium Rate'.

Transition rules apply for 2020-2022 premium rate setting, to gradually phase-in any rate increases over the three years. Transition provisions are as follows:

Premium Year	Review Period	Rate Increase	Rate Decrease
2020	2013-2018	No increase from the Starting Point Rate to Projected Premium Rate	Rate can move downward directly to the Projected Premium Rate
2021	2014-2019	Rate increase from 2020 rate limited to 1 risk band upward (5% increase)	As above
2022	2015-2020	Rate increase from 2021 rate limited to 2 risk bands upward (10% increase)	As above
2023	2016-2021	Transition ends – Rate increase/decrease limited to 3 risk bands (annual rate adjustment capped at about 15% from prior year rate)	

## Business Implications

From a business viewpoint, the WSIB rate model recognizes the ‘power of money’ concept – heightened individual liability becomes a strong motivator that can influence behaviour. More responsibility for individual claims experience, with rewards for good performance and demerits for sub-standard experience, can financially motivate positive behaviour.

With more financial accountability, there are stronger reasons to prevent accidents and manage risk connected to the physical and psychosocial work environment. Developing and engaging synergistic H&S programs and planning strategies, will enhance health protection, safety promotion, and disability management outcomes.

The cost of workplace injuries is significant. Direct costs include WCB premiums to pay benefits, experience rating adjustments, non-compliance levies and regulatory fines. Associated indirect costs, such as loss of productivity, property/equipment loss, and impact on corporate image, add to the overall cost equation. With more money on the line under this new employer-centric rate framework,

there is heightened need for business to invest and engage the right level of human and capital resources.

Crawford & Company’s specialized claims and risk management solutions are designed to meet the evolving needs of business. As an industry leader with a 50 year performance record, Crawford delivers knowledge based solutions that are required in a dynamic, compliance driven work environment. Crawford’s Human Risk services, including H&S prevention, disability management programs and renowned medical management services, offer the best business solutions to achieve performance excellence under the WSIB rate framework.

Technology advancement is a key Crawford differentiator. For example, Crawford *EmployerWORKS*, is a software tool that empowers prompt and successful return-to-work and enhances claims management outcomes. *EmployerWORKS* provides access to a real-time digital claim profile database, with over 30,000 job profiles that map out physical and cognitive demands. This leading-edge software is highly relevant under the WSIB rate framework, providing the following advantages:

<b>Crawford EmployerWORKS Advantages Under Rate Framework</b>	
Injury Prevention	Ensures job safety while reducing injuries
Ergonomics	Prioritizes proactive ergonomics interventions
Return to Work	Expedites return to work of ill or injured workers
Causation Analysis	Diagnosis-specific questions to identify occupational vs. non-occ causation
Psychosocial Risk Factor Analysis	Defines risk scores and factors that impact disability duration and recovery

Movement into the new rate framework model requires a dynamic business approach, with engagement of necessary resources to optimize outcomes. Reducing the occurrence and costs of accidents have significant benefits, both for people and business – employee wellness and quality of life betterments, productivity improvements, and stronger competitiveness in a world economy.

For more information about the WSIB Rate Framework and Workers’ Compensation services please contact:

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