

# *Alberta Health and Safety Conference*

## *Industry Custom Pricing*



October 27, 2009

## **The WCB Pricing Programs are designed and integrated to meet the following objectives:**

1. Collect the required premium to pay for claim costs, administration and other obligations.
2. Distribute premiums amongst industries and employers to promote accountability, and recognize prevention and disability management.

<b>Rate Setting:</b>	<b>distributes premiums amongst the industries</b>
<b>Experience Rating (ER):</b>	<b>distributes an industry's premiums amongst the employers in their industry</b>
<b>Poor Performance Surcharge (PPS):</b>	<b>"recognizes" the results of employers who are consistently the worst performers</b>
<b>Partnerships in Injury Reduction (PIR):</b>	<b>a voluntary program to recognize employers for results in prevention and disability management</b>
<b>Industry Custom Pricing (ICP):</b>	<b>a voluntary option to customize programs at the industry level based on that industry's risk preferences</b>

**ICP is a *VOLUNTARY* pricing program that offers flexibility for different approaches to safer workplaces:**

- **stronger messages about performance**
- **bigger incentives to improve outcomes**
- **lower premium rates for most employers**

**ICP is about industries.....**

- **making *CHOICES* on pricing programs**
- **taking *CONTROL* of premium distribution**

## Overall Participation

**For 2009, there are 46 of 403 industries participating in ICP**

**For 2010, there will be 76 new industries participating for a total of 122 of 403 industries participating in ICP**

## ICP programs selected:

- **113 industries have selected the Cost Relief option only**
- **7 industries have selected all ICP options for 2010**
- **2 industries have selected a change to E/R features only**

## **Maximum Adjustment** (from industry base rate)

- **discounts and surcharges can increase from 40% to 60%**

## **Participation** (adjusted based on size of employer)

- **can increase from 50% to 100% to allow larger adjustments and more opportunity for maximum adjustments**

## **Experience Ratio** (compares employer performance to an industry average)

- **can increase from 80% to 100% to recognize more experience for all employers**

## **Cost Relief** (cost used to measure performance)

- **the levy for cost relief would be removed from the industry rate and in return costs related to the aggravation of a pre-existing condition would not be removed the employer's experience record**

**Participation X Experience = Adjustment Ratio**

*(Size of Employer)*

*(Measure of Performance)*

*(Size of Financial Incentive)*

**Base Program**

**50%**

**80%**

**40%**



**ICP (maximums)**

**100%**

**100%**

**60%**

## **PARTICIPATION X Experience Ratio = Adjustment**

*(Rate and Maximum)*

	<u>Base Program</u>	<u>ICP</u>
<b>Employer Premium*</b>	<b>\$200,000</b>	<b>\$200,000</b>
<b>Participation Rate</b>	<b>1%/\$4,000</b>	<b>1%/\$2,000</b>
<hr/>		
<b>Participation</b>	<b>50%</b>	<b>100%</b>
<b>Experience Ratio</b>	<b>50% (better)</b>	<b>50% (better)</b>
<b>Adjustment</b>	<b>25% (discount)</b>	<b>50% (discount)</b>

**\*A three year premium of \$200,000 or more is required for full participation in the current program.**

Participation X **EXPERIENCE RATIO** = Adjustment

	<u>Base Program</u>	<u>ICP</u>
Employer premium	\$200,000	\$200,000
Participation	50%	100%
<hr/>		
Employer Costs	\$0	\$0
Industry Average	\$50,000	\$50,000
Experience Ratio	80% (Better )	100% (better)
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Adjustment	40% (Discount)	60% (Discount)

$$\begin{array}{ccc} \text{Participation} & \times & \text{Experience} \\ \text{(Size of Employer)} & & \text{Ratio} \\ & & \text{Ratio} \\ & & \text{(Measure of Performance)} \\ & = & \\ & & \text{Adjustment} \\ & & \text{Ratio} \\ & & \text{(Size of Financial Incentive)} \end{array}$$

<b>Base Program</b>	<b>50%</b>	<b>80%</b>	<b>40%</b>
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<b>ICP (eg 1)</b>	<b>100%</b>	<b>60%</b>	<b>60%</b>
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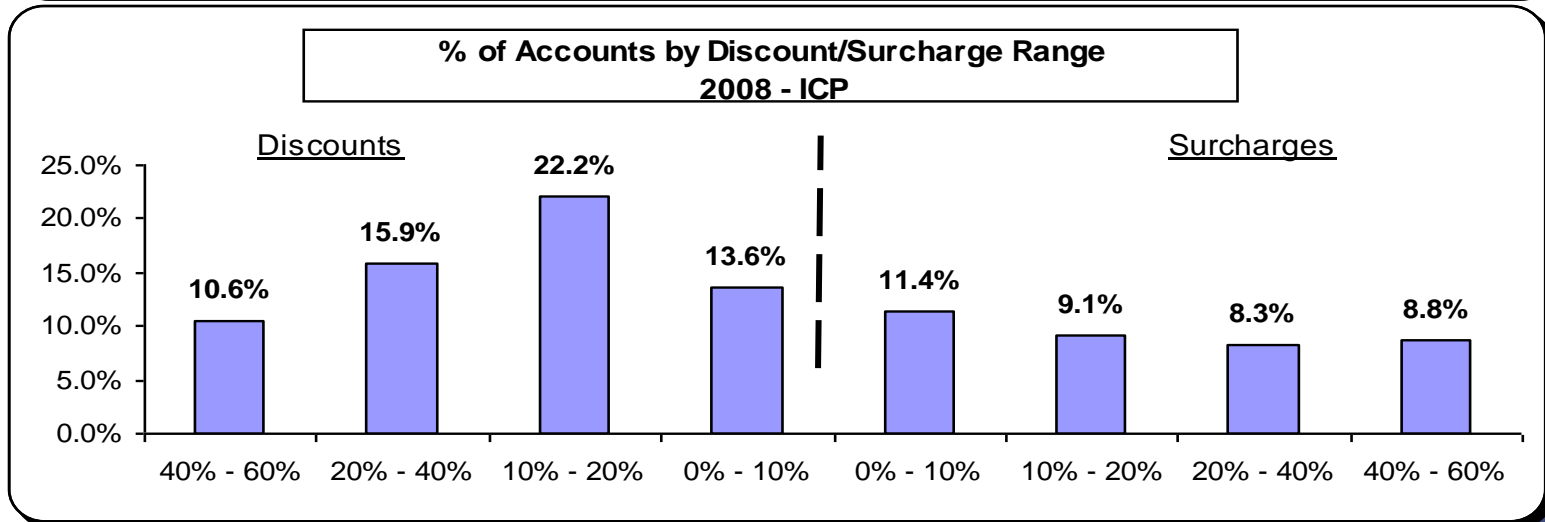
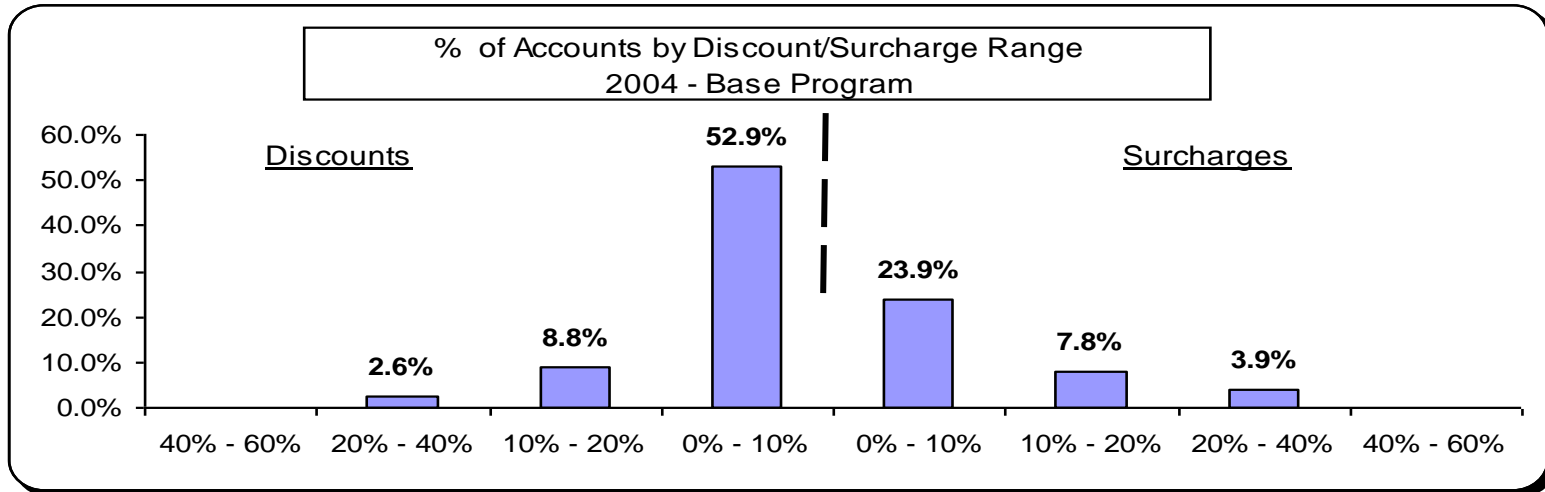
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<b>ICP (eg 2)</b>	<b>60%</b>	<b>100%</b>	<b>60%</b>
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- **Under the base program, only large employers with maximum experience can receive the maximum adjustment**
- **With ICP, the maximum adjustment is increased, and more employers can achieve the new maximum adjustment**

# MDA – Discount/Surcharge Distribution



# ICP – Motor Dealers Premium Distribution

Year	Industry Rate	Number of Discounts	Discount Premiums	Number of Surcharges	Surcharge Premiums*
2003	\$1.53	174	-\$405,039	114	\$481,921
2004	\$1.54	212	-\$624,089	114	\$670,579
2005	\$1.43	224	-\$1,529,319	134	\$1,726,241
2006	\$1.16	241	-\$1,526,300	144	\$1,525,223
2007	\$1.01	257	-\$1,614,118	145	\$1,527,356
2008	\$0.89	245	-\$1,490,245	149	\$1,431,908

- **Motor Dealers enrolled in ICP in 2005 with further changes in 2008**
- **Under ICP, discounts and surcharges continue to balance, however:**
  - employers with good performance pay significantly less
  - offset by higher premiums for employers that have not performed as well
- **Industry rate has decreased due to a variety of factors including ICP**

	<u>Base Program</u>	<u>ICP</u>
<b>Maximum Adjustment</b>	<b>40%</b>	<b>60%</b>
<b>Participation Rate</b> (1% Adjustment per Unit of Premium)	<b>\$4,000</b>	<b>\$2,000</b>
<b>Maximum Participation</b>	<b>50%</b>	<b>100%</b>
<b>Maximum Experience</b>	<b>80%</b>	<b>100%</b>

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## These features

- **will not change the overall premium required from the industry that year**
- **will change the distribution of premium based on outcomes**
- **will provide larger discounts for good performance; higher surcharges for poor performance**
- **will reduce the overall industry premium required over time**

## **Industries have an option on costs used to measure performance:**

- **Waive the use of cost relief for claims with aggravation of a pre existing condition**
- **Eliminates a levy in industry rates to fund the use of cost relief**
- **Provides incentives for disability management**
- **Experience rating adjustments based on outcomes**
- **Reduces subsidies between employers**

**In the Motor Dealer industry for 2009, the cost relief option resulted in:**

- **industry rate decrease from \$0.89 to \$0.87**
- **industry premium reduction of \$248,485**
- **428 of 436 employers (98%) with a premium reduction**

## **Cost Relief means:**

- **some or all of the cost of an employer's claim are not used when determining premiums through pricing programs such as experience rating and PIR**
- **lowers the premium that an employer would otherwise pay**

## **Cost relief does NOT reduce the cost of a claim:**

- **removes cost from employers experience rating**
- **cost relief is included in industry experience to set industry base rate**
- **leads to increased costs if no incentive to manage claims**

## **Cost relief affects premiums by:**

- **shifting premiums from users to non users through industry rates and E/R**
- **requiring a levy in industry rates to fund retroactive cost relief**
- **higher industry rates if no incentive to lower costs**

## ICP Cost Relief Option:

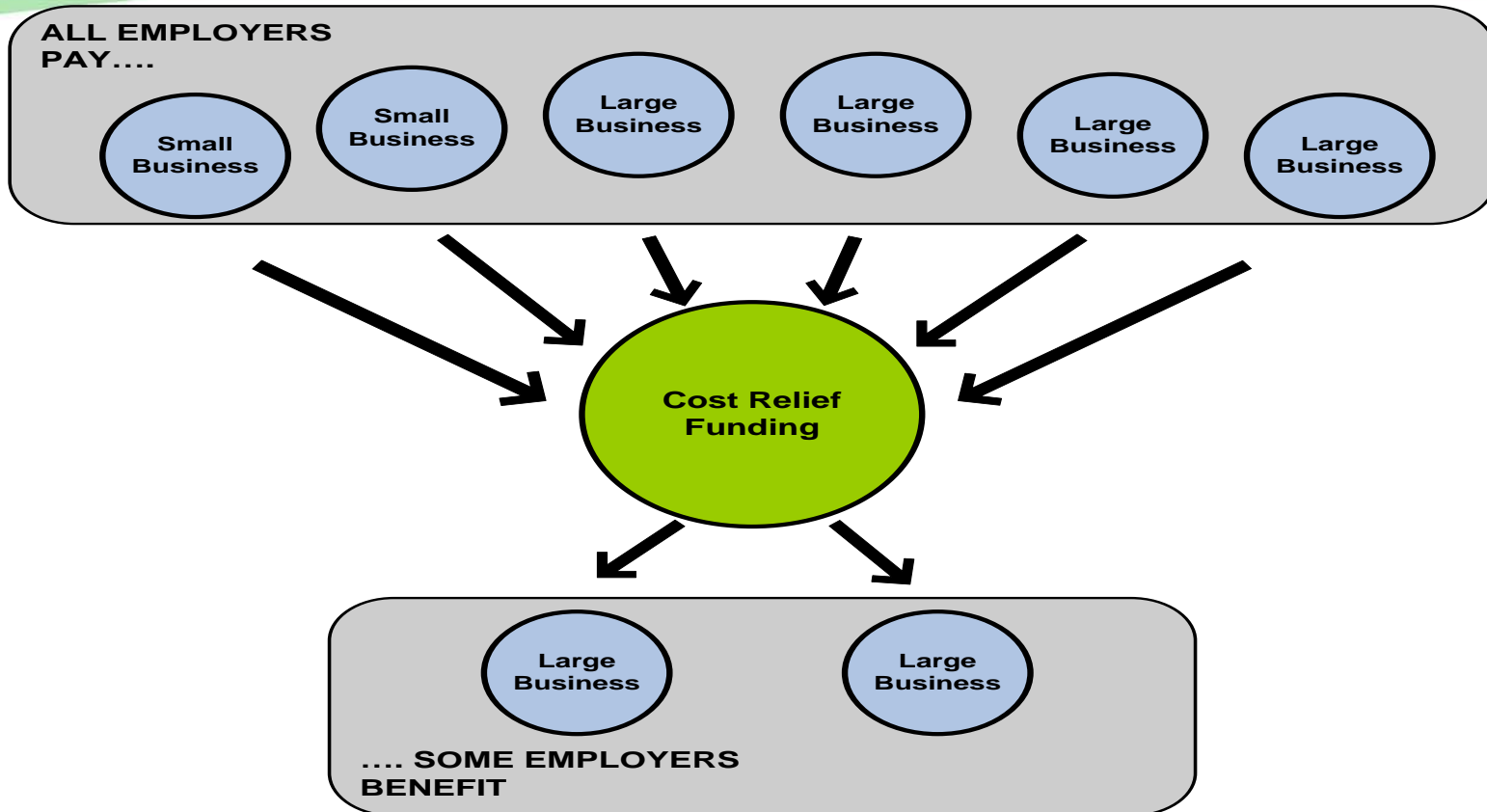
- **cost relief would not be used for claims with aggravation of pre existing conditions**
- **this is the most common type of cost relief and can have the biggest impact**
- **all other types of cost relief remain available for industries in ICP**

## Cost Relief is NOT a form of disability management:

- **disability management treats the claim and reduces cost with modified work**
- **cost relief can discourage modified work if not accountable**

## Protection for costly claims:

- **experience rating has a Maximum Per Claims Cost (MPCC)**
- **limits the impact of any one claim based on size of employer**
- **impact is limited to 10% of 3 year premium**
- **With a 3 year premium of \$100,000 – MPCC is \$10,000**



- **All employers contribute \$15 million to a pool of funds**
- **Less than 5% of employers benefit from premium transfer**
- **Industry rates adjusted from \$0.01 to \$0.12 to provide funding**

# ICP – Impact of Cost Relief

Type of Injury	Broken Leg	Motor Vehicle	Back Strain
Claim Costs	\$20,000	\$20,000	\$20,000
MPCC	\$15,000	\$15,000	\$15,000

## With Cost Relief

E.R. Costs	\$15,000	\$15,000	\$ 6,000
Avg. Costs	\$12,000	\$12,000	\$12,000
Discount/Surcharge	25% S	25% S	50% D
Premium	\$25,000	\$25,000	\$10,000

## Without Cost Relief

E.R. Costs	\$15,000	\$15,000	\$15,000
Avg. Costs	\$15,000	\$15,000	\$15,000
Discount/Surcharge	0%	0%	0%
Premium	\$20,000	\$20,000	\$20,000

**\*Regardless of option, WCB still needs to collect \$60,000 in premiums to cover claim costs.**

## **Employers participating in ICP are:**

### **Eligible to earn discounts in Partnerships in Injury Reduction**

- **Can earn up to 20% discount**
- **Subject to a maximum combined discount of 60%**
- **Complements ICP especially for employers with room for improvement**
- **Cost Relief option applies to PIR as well as E/R**

### **Subject to the Poor Performance Surcharge (PPS)**

- **Up to maximum 200% in addition to ICP surcharge**
- **Subject to same PPS rules as the regular program**

***CONSULTATION***



***POLLING***



***IMPLEMENTATION***  
*(upon industry approval)*

# Industry Profile and Impact

## Industry 00000 – Industry Description

### Cost Relief Option - 2009

<b>Total Experience Rated Employers:</b>	<b>639</b>
<b>Employers using cost relief:</b>	<b>31</b>
(1430 total employers - 791 non E.R. Employers*)	

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### Employer Impact:

<b>E/R employers with rate decrease:</b>	<b>97%</b>	<b>621</b>
<b>E/R employers with rate increase:</b>	<b>3%</b>	<b>18</b>

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<b>Industry Premium Impact:</b>	<b>2008</b>	<b>2009</b>
<b>Industry Rate – Base Program:</b>	<b>\$2.20</b>	<b>\$2.20</b>
<b>Industry Rate - ICP:</b>	<b>\$2.16</b>	<b>\$2.17</b>
<b>Net Savings in Premium :</b>	<b>\$579,672</b>	<b>\$410,226</b>

*\* All non E/R Employers receive a rate decrease*

### Experience Rating and Cost Relief Option – 2009

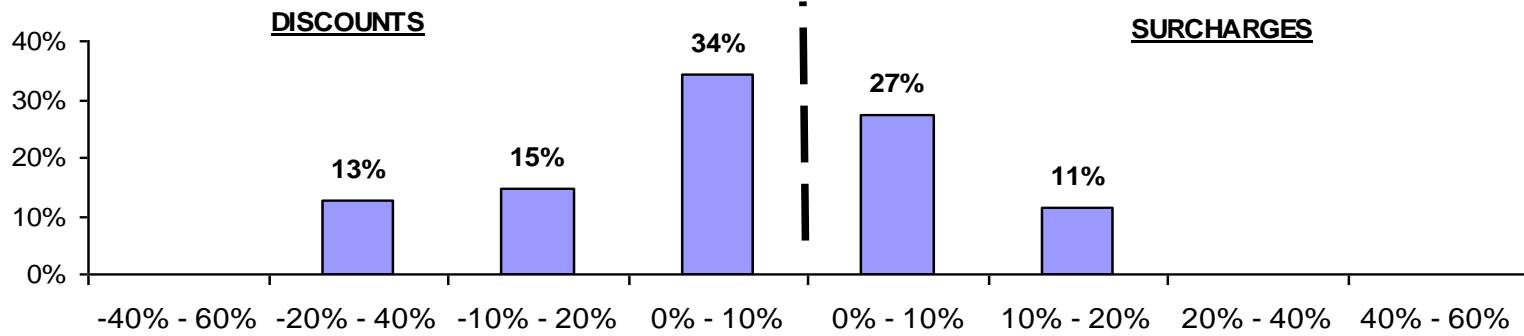
<b>Maximum Adjustment:</b>	<b>60%</b>	<b>Participation Rate:</b>	<b>1%/\$2,000</b>
<b>Maximum Experience:</b>	<b>100%</b>	<b>Maximum Participation:</b>	<b>100%</b>

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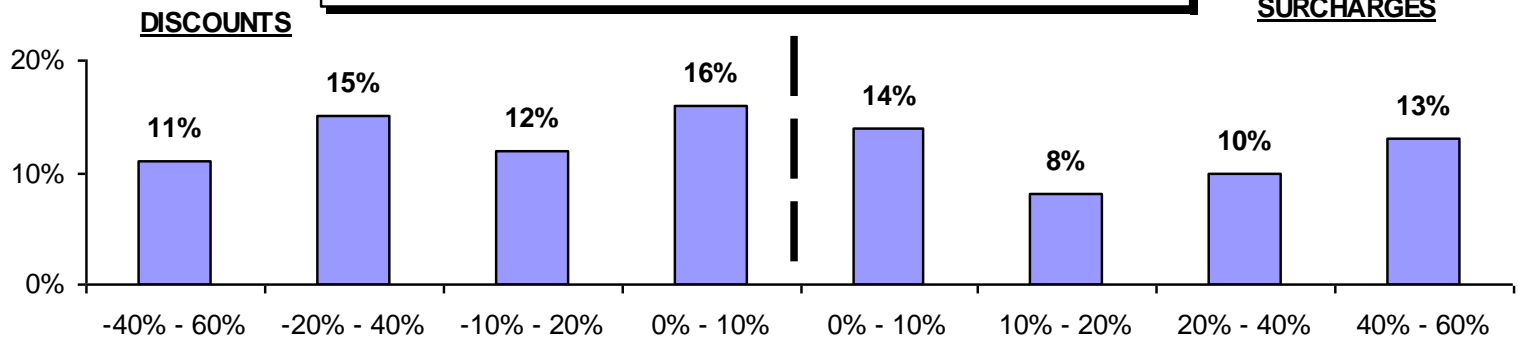
<b>Total ER Employers:</b>	<b>639</b>
<b>Discounts and Surcharges:</b>	<b>371/262</b>
<b>Maximum Discounts:</b>	<b>47 (16 in Base Program)</b>
<b>Maximum Surcharges:</b>	<b>50 (20 in Base Program)</b>
<b>E/R employers with rate decrease:</b>	<b>392</b>
<b>E/R employer with rate increase:</b>	<b>247</b>
<b>Non E/R employers – rate decrease only:</b>	<b>791</b>

# Industry 00000 – Industry Description Discount / Surcharge Distribution

**% of Accounts By Discount/Surcharge Range  
2009 for 00000 (industry description here) - Regular**



**% of Accounts By Discount/Surcharge Range  
2009 for 00000 (industry description here) - Modified**



# Appendix 1: ICP – Premium Impact Small Employer Example – Industry 00000

	<u>Base Program</u>	<u>ICP</u>
<b>Participation</b>	<b>25%</b>	<b>50%</b>
<b>Experience Ratio</b>	<b>80% (better)</b>	<b>80% (better)</b>
<b>Adjustment</b>	<b>20%</b>	<b>40%</b>
<b>Industry Rate</b>	<b>\$2.20</b>	<b>\$2.17</b>
<b>Employer Rate</b>	<b>\$1.76</b>	<b>\$1.30</b>
<b>Employer Payroll</b>	<b>\$1,000,000</b>	<b>\$1,000,000</b>
<b>Employer Premium</b>	<b>\$17,600</b>	<b>\$13,000</b>
<b>Premium Reduction</b>		<b>(\$4,600)</b>

# Appendix 2: ICP – Premium Impact Medium Employer Example – Industry 00000

	<u>Base Program</u>	<u>ICP</u>
<b>Participation</b>	<b>40%</b>	<b>80%</b>
<b>Experience Ratio</b>	<b>75% (better)</b>	<b>75% (better)</b>
<b>Adjustment</b>	<b>30%</b>	<b>60%</b>
<b>Industry Rate</b>	<b>\$2.20</b>	<b>\$2.17</b>
<b>Employer Rate</b>	<b>\$1.54</b>	<b>\$0.87</b>
<b>Employer Payroll</b>	<b>\$2,000,000</b>	<b>\$2,000,000</b>
<b>Employer Premium</b>	<b>\$30,800</b>	<b>\$17,400</b>
<b>Premium Reduction</b>		<b>(\$13,400)</b>

# Appendix 3: ICP – Premium Impact Large Employer Example – Industry 00000

	<u>Base Program</u>	<u>ICP</u>
<b>Participation</b>	<b>50%</b>	<b>100%</b>
<b>Experience Ratio</b>	<b>60% (better)</b>	<b>60% (better)</b>
<b>Adjustment</b>	<b>30%</b>	<b>60%</b>
<b>Industry Rate</b>	<b>\$2.20</b>	<b>\$2.17</b>
<b>Employer Rate</b>	<b>\$1.54</b>	<b>\$0.87</b>
<b>Employer Payroll</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>
<b>Employer Premium</b>	<b>\$77,000</b>	<b>\$43,500</b>
<b>Premium Reduction</b>		<b>(\$33,500)</b>

**Industry Custom Pricing is a VOLUNTARY program that offers flexible pricing options that reflect the industry's goals for premium distribution.**

**Industry Custom Pricing will:**

- **give industries more control over premium distribution**
- **allow premium rates to be more reflective of actual experience**
- **produce larger discounts and surcharges for employers**
- **send stronger messages to medium and small employers**
- **lower industry rate and overall premium with Cost Relief option**

## ***Industry Custom Pricing - ICP***

***Industries...***

***Making CHOICES...***

***Taking CONTROL...***