2018 ASSESSMENT RATES

EXECUTIVE SUMMARY

WorkSafeNB determines employers' assessment rates annually. Several factors influence rates, such as WorkSafeNB's current financial obligations, the prevailing economic environment, the cost of health care services, claims adjudication and benefit policies and practices, legislation, injury frequency and severity, workplace prevention and return to work initiatives, as well as the changes in the nature of workplace activity in the province.

Each year's assessment rates must generate enough revenue to cover all current and future costs associated with workplace injuries occurring in the assessment year, including health care, rehabilitation and wage replacement benefits. In addition to accident-related expenses, the assessment rates also include all expenditures for safety and prevention programs, all administrative expenses and may include a funding adjustment to account for prior year deviations.

Benefit payments for prior year claims are significantly higher than they were before 2016. The number of new lost-time claims accepted is also on the rise, leading to a substantial increase in required revenue for 2018. Administration expenses were reduced to mitigate the increase. The projected cost of benefits and administration for 2018 accidents and exposure is \$182.6 million. When factoring in a release of \$2.6 million that had been set aside for health and safety initiatives, the net cost of benefits and administration used to determine 2018 assessment rates amounts to \$180.0 million or \$1.93 per \$100 or assessable payroll.

The government appointed a task force to review the workers' compensation system and asked the Office of the Auditor General to conduct a value-for-money audit of WorkSafeNB. The recommendations from both reviews will likely not be known until spring 2018, at the earliest. Faced with this situation, the board of directors had to decide between a large rate increase for the second consecutive year or taking a more gradual approach until clear definitions are developed around coverage under the *Workers' Compensation (WC) Act*.

The board of directors opted for the gradual approach. They based the 2018 average rate on the lower end of the range of cost projections presented, assuming costs would continue at current levels and not continue to increase in the medium to short term. The board also temporarily suspended the funding goal of 110%, choosing a rate based on a funding target of 100%. A larger portion of the excess assets (\$21.5 million) will be used to fund 2018 projected operating costs. The balance of the required revenue (\$158.5 million) will be collected from assessed employers at an average rate of \$1.70 per \$100 of assessable payroll.

While WorkSafeNB continues to be exposed to significant external risks, the additional allocation of excess funds toward 2018 claims is not expected to significantly increase those risks, as long as the 2019 average rate reflects the revenue required to pay for benefits to injured workers and their families.

All information presented in this report relates to assessed employers covered under the *WC Act*. Assessment rates are not established for federal and certain provincial government institutions whose claims are administered on a self-insured basis. As a result, some of the statistics presented will differ from those in the annual report, as they include information relating to both assessed and self-insured employers. Furthermore, contributions to fund claims under the *Firefighters' Compensation Act* are determined and collected separately and are not part of this report.

November 2017

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I – AVERAGE ASSESSMENT RATE

The assessments collected each year must meet WorkSafeNB's financial obligations as defined under the *Workers' Compensation (WC) Act* and by policy. Once the overall projected revenue requirement is determined, it must be collected from individual rate groups, industries and employers by way of assessments levied through a rate per $100 of assessable payrolls. The following table details the total projected required revenue and assessable payroll for 2018, along with the resulting rate per $100 of assessable payroll.

Required Revenue Projection	**in millions**	**per $100 payroll**
Cost of Benefits for 2018 Injuries and Exposures	$ 136.6	$ 1.47
Administration and Prevention	$ 43.3	$ 0.46
Funding Level Adjustment	$ (21.5)	$ (0.23)
Total Required Revenue*	**$ 158.5**	**$ 1.70**
Assessable Payroll Projection	**$ 9,324 million**	

*Small differences in total due to rounding

Assessable Payroll Projection

Each worker's annual payroll must be reported up to $63,600, the maximum assessable payroll amount for 2018, a 1.46% increase over 2017. The Conference Board of Canada predicts 2.4% overall wage inflation for New Brunswick workers in 2018 and 0.2% growth in the workforce. Assessable payrolls are projected for each industry group by comparing a series of independent estimates to internal projections based on the payroll reported through the end of July. Additional consideration is given to short-term economic fluctuations such as the opening/closure of a large employer, major construction projects, etc. Forecasting changes in the types of business activities in the province can also help predict changes in claim levels.

As with any forecasting process, deviations from the projection will occur. Both costs and assessments collected are influenced by employment levels. As a result, a deviation between actual and expected payrolls and resulting assessments collected are usually offset, at least partially, by deviation in claims.

	2018
Assessable Payroll Projection in millions	**$ 9,324**

Required Revenue Projection

The assessment revenue required by policy and legislation must cover the projected cost of benefits for accidents occurring in 2018, the estimated administration costs from the approved budget and the long-term funding provision required by legislation.

COST OF BENEFITS

Assessments collected must fully fund the cost of injuries expected to occur in the assessment year, including all future costs associated with these injuries as well as any exposure that may lead to long latency occupational diseases. For a young injured worker, some payments could continue for the next 80 years. Actuarial forecasts project the aggregate cost based on current WorkSafeNB practices, as well as current economic and claim trends for the province. Forecasts would also take into account benefit changes arising from approved legislative and policy amendments.

Actual results could vary materially from the projections. The future could bring additional changes in fee levels, policies and/or practices that were not known when this report was prepared. Legislation changes, Worker's Compensation Appeals Tribunal or Court of Appeal decisions could also lead to changes in policy and practice that could significantly impact projected results.

Claim cost projections are primarily based on prior year results with analysis of recent trends and any known changes in fee levels, policies, procedures, etc. Trends can be difficult to uncover and interpret for a number of reasons. For instance, only a small proportion of new accident costs are actually paid in the year of accident. Furthermore, billing and payment delays can mask an emerging trend. History has shown that some increases or decreases in costs in a given year are only temporary fluctuations. Generally, at least three years of data is needed to confirm trends. While not solely based on recent payment increases, liabilities reported in 2016 were significantly higher than those reported in 2015. Since then, costs have continued to increase through August 2017. Projections for 2018 presented in this report were developed assuming claim volume and severity would stabilize at August 2017 levels.

CHANGES IN LEGISLATION AND POLICIES

The Worker's Compensation Appeals Tribunal (WCAT) has the authority to interpret the *WC Act* and make decisions that are binding on WorkSafeNB. One of the most significant differences in interpretation relates to the application of the standard of evidence to the claim decision process. These WCAT decisions have moved the decision process away from the previously used preponderance of evidence model by giving more weight to information that benefits the injured worker. Consequently, more conditions are deemed work-related and the duration of wage loss payments may be extended. WorkSafeNB now factors in more medical and personal conditions, rather than focusing exclusively on the benefit entitlement arising from the workplace injury.

Other recent interpretations of the *WC Act* by WCAT have increased wage loss benefits for some workers with estimated capable earnings or those with other sources of revenue, such as the Canada Pension Plan Disability award.

To ensure the security of benefits to injured workers, WorkSafeNB relies on a long-term fiscal strategy when making long-term decisions. Since WorkSafeNB depends on investment returns to help pay benefits to injured workers, the board of directors recognizes the risks associated with potential market fluctuations and has set a funding goal at 110% of assets over liabilities. In the most recent annual financial statements, the funding level was 112.1%. The policy suggests that any shortfall or excess relative to target be amortized in the assessment rates over eight years. The assets were $171.8 million over liabilities and $29.6 million over 110% target, making only $3.7 million or $0.04 per $100 of assessable payroll available to mitigate the rate increase, when amortized over eight years.

The board of directors also considered the following factors:

- The government appointed a task force to review the workers' compensation system. Recommendations will not be known until spring 2018, at the earliest.
- The government requested that the Office of the Auditor General conduct a value-for-money audit of WorkSafeNB. The report is not expected until 2018.
- With the two pending reviews, the uncertainty surrounding the future scope of the system makes projecting costs very challenging.
- Government requested assessment rates remain stable pending the outcome of the reviews.

The board opted for a gradual approach in setting the 2018 average assessment rate. They assumed claiming patterns would remain stable at current levels and not continue to increase in the short- to medium-term. Additionally, the long-term fiscal policy was temporarily suspended and the 2018 average rate was based on a 100% funding level target, rather than 110%. This allowed for $21.5 million (12.5% or 1/8th) of excess funds to be allocated toward projected costs for 2018, leaving a smaller amount to be charged to assessed employers for 2018.

In the absence of any significant changes, the projected revenue required for 2019 is expected to increase substantially. The impact of the board's decision to use a larger portion of the excess assets over liabilities to help employers transition to higher average rate level is not expected to have a material impact on the security of benefits to injured workers going forward. Taking into account the anticipated loss from operations in 2017 and the budgeted loss for 2018 (funded by excess funds), the funding level at the end of December 2018 is projected to be slightly above 100%.

WAGE REPLACEMENT AND REHABILITATION

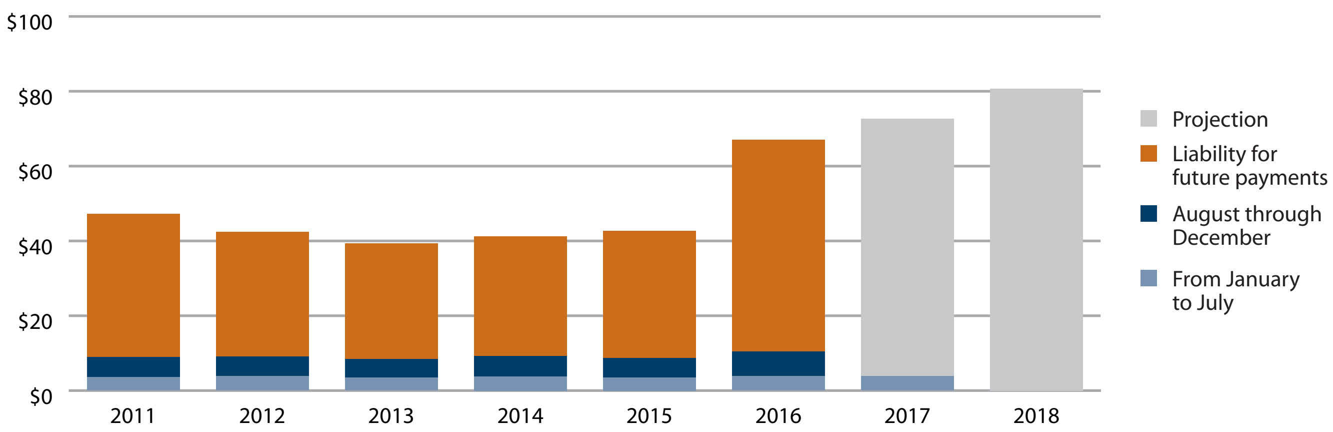
The chart below illustrates actual costs through July of the given accident year in light blue and costs from August to December in dark blue. The larger portion of costs, presented in orange, represents the accident year's liability projected based on information available at the end of the accident year. The graph illustrates a significant increase in costs in 2016.

The number of lost-time claims in receipt of short-term wage loss benefits increased 50% from July 2015 and July 2017, from about 1,400 to about 2,100. Over the same period, 12-month payments for those claims increased 39%, from $79.7 million to $110.6 million. Composite duration, the average number of days paid in the year for lost-time claim from the most recent five years, has increase 19%, from 77.4 days for 2015 to 92.3 days for 2016. The average number of days paid through July on current year accidents increased 13% in 2016 and another 5% in 2017.

Estimated costs of wage replacement for the accident year increased 57%, from $42.7 million in 2015 to $67.0 million in 2016. Since costs through the end of August 2017 have been higher than anticipated, additional increases of 8% and 11% are expected for 2017 and 2018. Wage loss benefits are expected to cost $72.7 million for 2017 and $80.7 million for 2018.

NEW ACCIDENT COSTS

Wage Replacement and Rehabilitation (in millions)



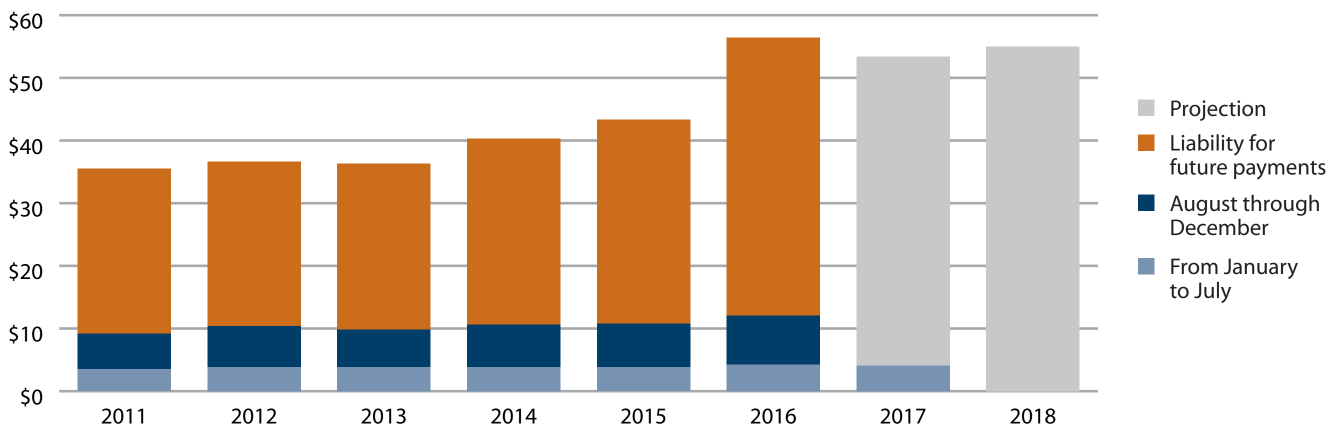
HEALTH CARE

WorkSafeNB covers all health care expenses including medical appointments, hospital stays and prescriptions. It is difficult to predict exactly which medical treatments injured workers will needed and how much those treatments will cost, especially with increasing fees and typical large cost increases associated with advances in medical technology. Fluctuations in billing delays can also mask or accentuate short-term trends. WorkSafeNB negotiates fees with various health care service providers in an effort to manage costs. For example, since April 2017, WorkSafeNB has purchased hearing aids directly from the manufacturer at a reduced cost and has entered into an agreement with audiologists to provide services to workers suffering from hearing loss as a result of noise exposure in the workplace. WorkSafeNB has also launched an awareness campaign to encourage workers to protect their ears at work, home and play.

The following chart illustrates the new accident costs associated with health care. The number of accidents incurring payments for health care services through December of the accident year has remained stable over the last five years. However, the cost per claim increased 10.3% in 2016 relative to 2015. Since then, health care expenditures through July of 2017 are 9.9% lower than 2016. The number of injured workers receiving treatment decreased 6.9% while payment per claimant decreased by 3.2%. Health care projections for 2017 are expected to be 5.4% lower than 2016, followed by a 3.1% increase in 2018, resulting in projected health care costs of $55.0 million for 2018.

NEW ACCIDENT COSTS

Health Care (in millions)



SURVIVOR BENEFITS FOR FATAL INJURIES

Over the past decade, an average of seven workplace accidents per year have resulted in a fatality. An amount of $0.9 million was estimated for cost of benefits for dependent survivors in 2018.

COST OF BENEFITS

While projections were developed using historical data and reasonable assumptions, it is possible for significant deviations to occur and results may be much lower or higher than projected. Costs presented in the table assume cost levels stabilize at August 2017 levels.

Estimated Cost of Benefits in millions	**2018**
Wage Replacement and Rehabilitation	$ 80.7
Health Care	$ 55.0
Survivor Benefits for Fatal Injuries	$ 0.9
Total	**$ 136.6**

ADMINISTRATION AND PREVENTION COSTS

WorkSafeNB is committed to excellence in service, safety and prevention. Present and future administration costs for claims occurring in the assessment year are fully funded through assessments. The budgeted administration expenses approved by the board of directors include costs associated with the management of prior years' claims. Some current administration expenses have already been provided for through prior years' assessments. On the other hand, new accident costs must include a provision for future administrative expenses of current year accidents.

The administration budget for 2018 was reduced by $4.3 million (or $0.06 per $100 of assessable payroll) through investments in technology and initiating a Lean Six Sigma program to optimize service delivery while achieving administrative efficiencies. Policies relating to travel expenses and professional development for staff were also revised to limit spending. An additional $2.6 million (or $0.03 per $100 of assessable payroll) was gained by releasing funds set aside for occupational health and safety initiatives.

	2018
Administration and Prevention Costs in millions	**$ 45.9**
Release of Funds Set Aside for Health and Safety Initiatives	$ (2.6)
Total	**$ 43.3**

TARGET FUNDING LEVEL

The long-term fiscal strategy (Policy 37-100) outlines the board's approach to making long-term decisions relating to the Accident Fund used to fulfill WorkSafeNB's benefit obligations to injured workers under the *WC Act*. WorkSafeNB has a long-term outlook and collects assessments today to pay benefits well into the future. Likewise, benefits are being paid today with funds collected many years ago. In a perfectly predictable world, WorkSafeNB would be 100% funded and would have assets perfectly matched with liabilities. Unfortunately, neither assets nor liabilities are perfectly predictable.

WorkSafeNB holds assets in a diversified investment portfolio, providing an additional source of income to help fund future benefits. Without this additional source of revenue, assessment rates would be much higher. While the investment strategy provides reasonable assurance that the assumed average annual rate of return of 6.08% will be earned over long periods of time, financial markets are impossible to predict over the short- to medium-term. In some years, the fund may grow by much more than 6.08% while, in other years, it may grow by much less or may even shrink. In 2016, investments earned 9.16%, bringing WorkSafeNB's invested assets to $1,206 million as valued on December 31, 2016. Since the downturn in the market in 2008, returns have exceeded the assumed returns on assessed liabilities by $307 million. History has shown that after long periods of positive returns, the market has had periods of poor returns.

While liabilities may not be as volatile as investment returns from year to year, they too can generate significant gains and losses. Each year, using past experience, actuaries estimate the current value of all future obligations to injured workers as of December 31. As claims mature and benefits change, the estimates are revised annually with the most up-to-date information available.

Transition toward new International Financial Reporting Standards (IFRS) continues. These changes are expected to improve transparency and consistency of reporting across jurisdictions. The full implementation of IFRS may impact the funding level in the future. WorkSafeNB continues to monitor the proposed changes to standards of practice and their potential impact on future reported financial results.

When WorkSafeNB's funding position is below 100%, legislation requires the shortfall to be recovered through assessments over a period of no more than five years. As part of WorkSafeNB's prudent long-term fiscal strategy, the funding policy targets a higher funded ratio than required by legislation to better weather the periods when financial markets may struggle. When the funding position is above or below the 110% target, the surplus or shortfall is amortized in the assessment rates over a period of no more than eight years. Assets were in excess of liabilities by $171.8 million at the end of 2016. The resulting funded ratio of 112.1% is above both the legislated requirement of 100% and the funding policy target of 110%.

In light of pending system reviews and to give employers more time to plan for increases in premiums, the board of directors temporarily suspended the 110% funding target and used the legislated target of 100% to guide their 2018 rate decision. WorkSafeNB has allocated 12.5%, or $21.5 million, of the surplus to cover costs associated with 2018 workplace injuries. Therefore, the 2018 average assessment rate includes a reduction of $0.23 per $100 of assessable payroll. When the funding level is above target, some operating costs can be funded through the surplus rather than entirely through assessments. Likewise, in years where the funding level may fall below target, employers' assessments will exceed operating costs in an effort to make up the shortfall.

	2018
Target Funding Level Adjustment in millions	**$ (21.5)**

II - CLASSIFICATION

Instead of taking a purely collective liability approach, where all employers would be assigned the same average assessment rate, WorkSafeNB assigns different assessment rates to employers based on the risks associated with their industry. This system promotes fairness and accountability, while creating incentives for firms to improve their occupational health and safety practices and performance.

Cost ratios are used to compare industries and identify trends. They include five-year new accident costs divided by the assessable payroll reported over the same period. Five-year new accident costs include all payments, up to $125,000 per claim, for the accidents that have occurred in the five most recently completed calendar years. Since the 2018 assessment rates are calculated in 2017, the five-year period spans from 2012 to 2016. Because all fatalities are serious even though some may be relatively inexpensive, all fatalities are charged a cost of $125,000 for the purpose of rate setting.

The three-stage process for classifying employers into rate groups is outlined below.

INDUSTRIES

Employers are assigned to one of 796 industries as defined by the North American Industry Classification System (NAICS), based on their primary business activity. Employer classifications are periodically reviewed and adjustments are made throughout the year if inaccuracies are uncovered or if employers change their business activity.

INDUSTRY GROUPS

Industries involved in similar activities, which are expected to have similar cost experience, are grouped into one of 75 industry groups. Usually, sequential NAICS codes are grouped together and efforts are made to avoid dominance of a single employer. Ideally, each industry group should combine enough employers to have at least $500,000 in five-year new accident costs to minimize volatility of results from year to year. Industry groups are reviewed annually to ensure the groupings continue to be appropriate.

RATE GROUPS

Industry groups with similar cost experience history and trends are combined into one of 19 rate groups. Very large industry groups may form their own individual rate group, while smaller industry groups are combined to have at least $3 million in five-year new accident costs to provide a credible basis of analysis. Rate groups are also reviewed annually.

Classification is a fundamental building block for all subsequent calculations in the process. The rate groups' historical experience relative to others is used to determine appropriate assessment rates so that employers pay their fair share of benefit costs over time. While industries will occasionally be classified into a different industry group and/or rate group if their accident experience changes, the objective is to maintain a balance between stability and responsiveness, with changes made only when warranted by a continued improvement or deterioration in cost experience.

III – RATE CALCULATION

Basic Rate + Experience Rate = Net Rate

All employers are assigned a basic rate based on their rate group classification. If eligibility criteria are met, employers will also be assigned an experience rate. Employer assessments are calculated by multiplying the net rate by annual assessable payroll divided by $100, subject to a $100 minimum assessment amount.

Basic Rate

$$\text{Average Assessment Rate} \times \frac{\text{Rate Group's Proportion of Costs}}{\text{Rate Group's Proportion of Assessable Payroll}} = \text{Basic Rate}$$

The rate group's total experience relative to all assessed employers determines the basic rate. Using the same five-year data defined in the previous section for classification, each rate group is responsible for a given percentage of total claim costs and assessable payroll. Such that a rate group accounting for an equal percentage of overall costs and assessable payroll will pay the average assessment rate. Alternatively, a higher risk rate group with a percentage of costs that is twice the percentage of its assessable payroll will pay twice the average rate. The rate group basic rates for 2018 range from $0.35 to $5.29. WorkSafeNB publishes a table of basic assessment rates for all industries on the website each year.

RECLASSIFICATION

While it is important for rates to reflect current experience, it is also important to introduce a measure of stability into the process to avoid unreasonably wide swings in the assessment rate applicable to individual employers from year to year. In the event of a large change in basic rate resulting from classification into a different industry group or rate group, annual transition limits continue to be applied until the group's basic rate is reached. Basic rate changes are limited to 20%, in addition to the percentage change in the average assessment rate. Given the 15% increase in average rate, some industries moving toward a lower rate group may be subject to a small increase or a decrease of up to 5%. Meanwhile, industries moving toward higher rate group will be limited to the greater of 35% or $0.20. This may be seen as producing a less responsive system, however, the fact that all industry groups are reviewed each year limits the risk of employers paying an assessment rate that does not reasonably reflect current accident experience for their industry. Furthermore, large industries that have credible experience are generally in their own rate group and are not subject to reclassification. The basic rate of an employer reclassified as a result of a change in the nature of business activity or an audit uncovering a classification error is not subject to any transition limits.

Experience Rate

Basic Rate x Participation Factor x Rate Adjustment = Experience Rate

Experience rating is designed to improve employer awareness of the importance of safety in the workplace and to achieve greater equity through the use of rewards and penalties based on the employer's own cost experience relative to their assigned rate group. Unlike the basic rate calculation that uses a five-year exposure period, only the three most recent complete years are included for experience rating. Payments, up to $62,500 per claim, are included for claims from 2014, 2015 or 2016. Fatalities are also charged with $62,500 for the purpose of experience rating regardless of the actual cost of the claim. An employer may see significant swings in experience rates from year to year as accidents occur, or as they mature and are no longer included in the three-year experience rating period.

Overall, the surcharges collected from employers with above average experience fund the rebates given to employers with better than average experience in each rate group so that no significant revenues or expenses are generated by the experience rating program.

ELIGIBILITY

Employers with average assessments of more than $2,000 at their current industry's basic rate over the three-year experience rating period participate in the program.

PARTICIPATION FACTOR

$$\left(\frac{\text{Three-Year Average Assessments} - \$2{,}000}{\$750} + 25\right) / 100 = \text{Participation Factor}$$

The participation factor, ranging from 25% to 100%, determines the weight assigned to the employer's experience. It protects the smaller employer from larger rate swings because, at their lower assessable payroll levels, even a modest claim could cause their cost ratio to be much higher than their rate group's. The minimum qualifying average assessment of $2,000 will result in a 25% participation factor. This factor increases 1% for every additional $750 in average assessments, up to a maximum of 100% reached when assessments exceed $58,250.

RATE ADJUSTMENT

$$\left(\frac{\text{Employer's Cost Ratio}}{\text{Rate Group's Cost Ratio}} - 1 \right) / 2.5 = \text{Rate Adjustment}$$

Employers receive a rate adjustment of 1% for each 2.5% variance from their rate group ratio. The employer variance measures the employer's experience versus the experience of its assigned rate group. If an employer's cost ratio is less than the rate group's cost ratio, the employer will benefit from a rate reduction. On the other hand, if an employer's cost ratio is greater than the rate group's cost ratio, the employer will have a rate surcharge.

The adjustment may not exceed the maximum discount of 40% or the maximum surcharge of 80%. These limits provide reasonable incentive for employers to improve their claims experience, while ensuring that all employers support the ongoing costs of the workers' compensation system.

Approximately half the registered employers have sufficient activity levels to participate in the experience rating program. Very few employers reach the 100% participation level and can see either the full 40% rebate or 80% surcharge. The average participation level is 37%. At such a participation level, the maximum rebate would be 15% and the maximum surcharge would be 30%.

Distribution of Assessment Rates

Most employers' assessment rates will be considerably different than the $1.70 average rate. In fact, only 2% of employers will be charged between $1.60 and $1.80. Net rates range from $0.21 to $9.29. Almost 5,400 employers will either see a net rate reduction or an increase smaller than the 15% average. Meanwhile, 9,050 employers will experience a net rate increase of 15% or more.

IV – OTHER CONSIDERATIONS

Federally Regulated Employers

In 1988, the Supreme Court of Canada ruled that federally regulated employers such as interprovincial transportation companies were not subject to the provincial health and safety laws. Consequently, any direct or indirect assessment paid by these employers for services under the *Occupational Health and Safety Act* was deemed unconstitutional. As a result, all federally regulated employers receive a 4% rebate applied to their basic rate.

Safety Associations

Construction, forestry and continuing care industries sponsor independent safety associations that promote workplace safety through education and other initiatives. Once industries meet the requirements outlined in the *Workers' Compensation Act*, WorkSafeNB collects revenue on behalf of the safety associations through increased basic rates for all employers in the participating industries.