WorkSafeBC Classification, Rate Setting and Preliminary 2013 Base Premium Rates

Forestry

August 2012

WORKING TO MAKE A DIFFERENCE
worksafebc.com

Topics

- WorkSafeBC's mandate
- Overview of the 2013 rates
- Overview of the classification & rate setting system
- Historical rates and 2013 rate for forestry
- Rate drivers and future rates
- 2013 rates for associated industries

WorkSafeBC's Mandate

To work with workers and employers as follows:

- To promote the prevention of workplace injury, illness, and disease
- To rehabilitate those who are injured, and assist with timely return to work
- To provide fair compensation to replace lost wages for injured workers during their recovery
- To ensure sound financial management for a viable workers' compensation system

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Overview of 2013 Rates

- The average base premium rate is projected to increase by about 5% to $1.62 per $100 of employers' assessable payroll. This represents the first average base rate increase in nine years.
- 65 percent of employers will experience a base rate increase
- 31 percent of employers will experience a base rate decrease
- 4 percent of employers will have their base rate remain unchanged
- Prior year history is as follows:
  - In 2010, 54% of employers saw a base rate increase, 40% a decrease, 6% no change
  - In 2011, 56% saw a base rate increase, 37% a decrease, 7% no change
  - In 2012, 39% saw a base rate increase, 53% a decrease; 8% no change

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The key rate drivers for 2013

- The number of claims expected in 2013 is expected to increase and the injury rate has risen by 8% from its all time low in July of 2010 and currently appears to be on an increasing trend.
- Average cost rate declined between 2010 and 2012, and is expected to have a very small increase in 2013.
- Lower investment returns – a 4.1% return in 2011 is better than many comparable institutions, however it didn't meet the target of 5.9% for the year and are expected to continue into 2013 as world financial markets continue to be very volatile

Classification & Rate Setting

The Board has adopted a **modified collective liability** system, under which **self-sufficient groups** of employers are created on the basis of similar cost rates. These groups must be large enough to provide for an adequate **spread of the risk** and **stability** in the assessment rate.

The costs of compensable injuries and diseases, along with the costs of administering claims and carrying out other statutory requirements, are collected from employers in the form of assessments. For this purpose, employers are classified into **classification units**, **industry groups** and **rate groups**. The costs incurred in relation to these groups determine the assessment rate paid by their members. The Board creates groups that are large enough to provide for an adequate spread of the risk and stability in the assessment rate.

The Classification System

The system is based on industrial undertaking rather than on occupation or hazard.

If a specific product is being manufactured, the classification is the same, regardless of whether the manufacturing is done by the employer’s workers or subcontracted out.

A classification includes all occupations within the industry, including office or clerical staff.

The classification system should not unfairly differentiate between firms competing for the same business.

Industries

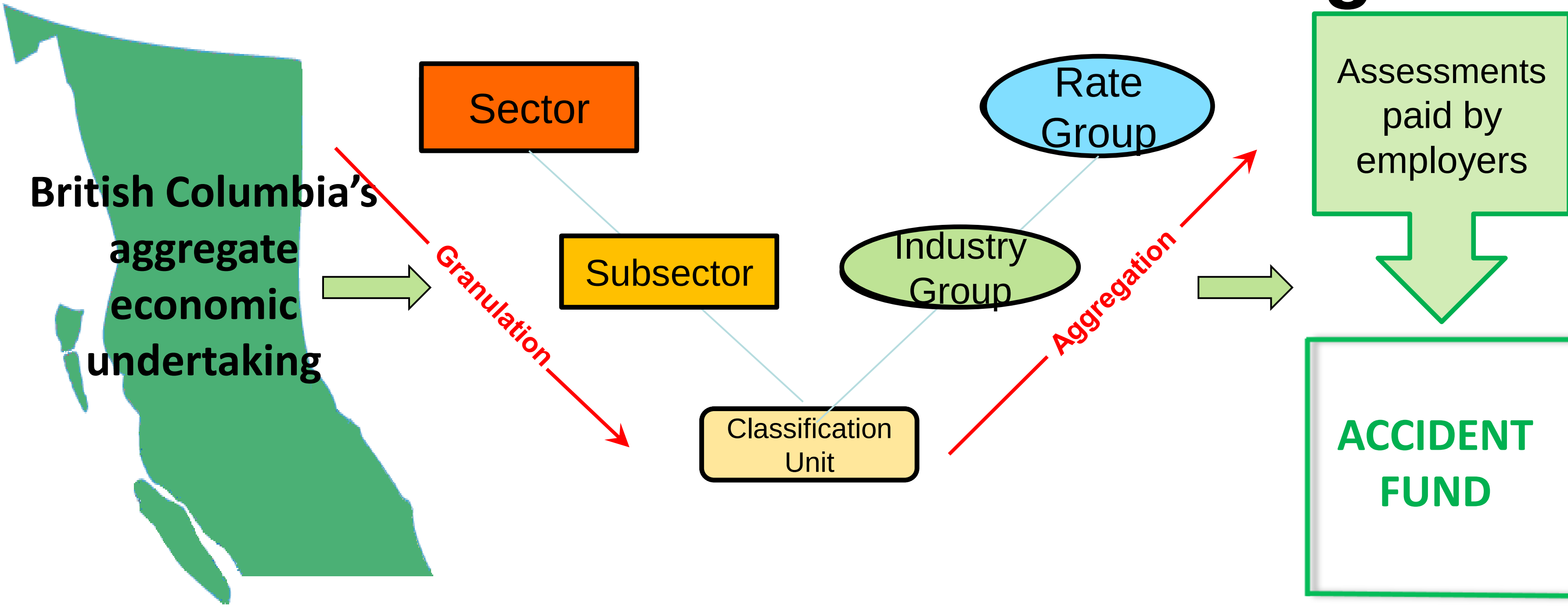
The following factors are considered when defining an industry:

- The product being produced or service being rendered
- The processes used

Firms that produce the same or similar products or deliver the same or similar services are generally considered operating in the same industry regardless of:

- The size of firms
- The specific technology used by firms

Classification & Rate Setting



Classification units are gathered into industry groups based on similarity of industrial undertaking to permit long term claim cost analyses. Industry groups are gathered into rate groups based on similarity of long-term cost rates unit to permit the calculation of stable insurance rates.

History of Rate Group DR

- Prior to the year 2000 all forestry activities were captured in a single subclass (010200) and paid a base rate of $8.55 per $100 assessable payroll.
- In 2000 various segments of forestry were placed in separate rate groups according to their risk profile with Integrated Logging charged an industry base rate of $7.46 and Manual Tree Falling as charged an industry base rate of $20.75.
- Two years of consultation ensued and industry resolved that:
  - Forestry is a single industry that cannot be segregated;
  - flowthrough of costs would not be realized;
  - Prevention policy regulations were inaffective; and
  - the high costs of manual tree falling should be spread across all forestry
- In 2003 all industry segments were placed in rate group DR and base rates were transitioned such that all the CUs in the rate group would share the same base rate by January 1, 2006.

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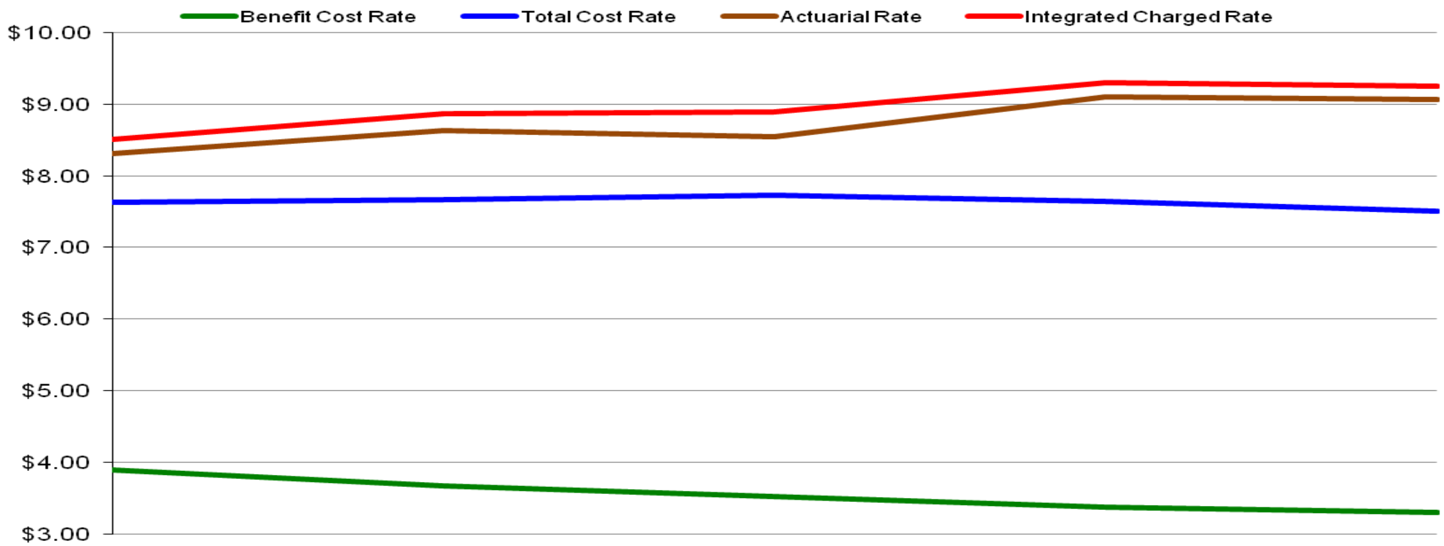
Rate Group DR

DR01

- Cable or Hi Lead
- Log Processing
- Manual Falling
- Dry Land Sort
- Integrated Logging
- Mechanized Falling
- Skidding
- Logging Road Construction
- Shake Block Cutting
- Log Booming
- Heli-Logging

Historical Rates for DR



	2009	2010	2011	2012	2013
Benefit Cost Rate	$3.89	$3.67	$3.52	$3.37	$3.30
Total Cost Rate	$7.63	$7.67	$7.73	$7.64	$7.51
Actuarial Rate	$8.31	$8.63	$8.54	$9.10	$9.06
Integrated Charged Rate	$8.51	$8.87	$8.89	$9.30	$9.25

While both the benefit cost rate and total cost rate declined, the actuarial rate increased in 2012 due to a growth in the rate group's deficit. The rate for Integrated Logging increased accordingly. It's base rate is higher to offset COR incentive payments made to qualifying firms.

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Rate Group DR Costs and Rates

	2013 Prelim	2012 Rate
Cost rates		
Short term disability	0.833	0.833
Long term disability	0.952	1.020
Survivor benefits	0.381	0.320
Health care	0.905	0.963
Vocational rehabilitation	0.225	0.231
	------	------
Average benefit cost rate	**3.30** *	**3.37** *
Claim administration	1.57	1.58
Accident fund adjustment	0.37	0.55
Penalty and ER imbalance adjustment	0.92	0.88
Other administration costs	1.35	1.26
	-----	-----
Total cost rate	**7.51**	**7.64**
Amortization adjustment	1.45	1.42
	-----	-----
Actuarial rate (per $100 of assessable payroll)	**8.96**	**9.06**

CU #	CU name	2013 Prelim	2012 Rate
703003	Cable or Hi-Lead Logging	$8.79	$9.10
703004	Dry Land Sort	$8.93	$9.17
703006	Ground Skidding, Horse Logging, or Log Loading	$9.00	$9.18
703008	Integrated Forest Management	$9.25	$9.30
703009	Log Booming or Marine Log Salvage	$8.58	$8.88
703011	Log Processing	$8.97	$9.20
703012	Logging Road Construction or Maintenance	$8.95	$9.25
703013	Manual Tree Falling and Bucking	$8.63	$8.95
703014	Mechanized Tree Falling	$9.05	$9.23
703015	Shake Block Cutting	$9.05	$9.73
703019	Helicopter Logging	$9.20	$9.36

Integrated Forest Management

	2013 Prelim	2012 Rate
Total cost rate	**7.51**	**7.64**
Amortization adjustment	1.55	1.46
	------	------
Actuarial rate	**9.06**	**9.10**
Funding policy adjustment	0.00	0.00
Industry-funded initiatives	0.19	0.20
Prevention adjustment	0.00	0.00
	-----	-----
Base rate	**9.25**	**9.30**

Lower benefit cost rate translates to lower rate for the rate group. IFM's amortization debit increased to offset the COR rebates.

Deficit growth

When setting the 2011 rates in 2010, the 2010 y/e balance was forecasted to be **-$18.2** million and a **$0.76** amortization debit was applied to pay down that deficit over 5-years.

Because of excess investment returns in 2010, and projected suboptimal returns for the next few years, WorkSafeBC contributed $400 million to the Capital Reserve. DR's share was $40.7 million and the actual y/e balance was $-51.4 million.

When setting the 2012 rates in 2011, the 2011 y/e balance was forecasted to be **-$72.8** million (even after applying DR's $8.7 million share of the total $96 million drawn from the Capital Reserve in 2011). The larger deficit caused the amortization debit to grow to **$1.42**.

The 2011 actual y/e balance was **-$79.4** million. The 2012 y/e balance is forecast to be **-$107.8** million (even after applying DR's $17.8 million share of the total $203 being drawn from the Capital Reserve in 2012).

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Rate Group DR Payroll ($millions)

2011 Rates		2012 Rates		2013 Rates	
Est. 2010	545.6	Actual 2010	653.7	Actual 2010	660.3
Est. 2011	544.9	Est. 2011	650.4	Actual 2011	732.1
		Est. 2012	651.3	Est. 2012	726.0
				Est. 2013	723.3

Since assessments are collected per $100 of assessable payroll, the industry's growth will permit the pay down of the deficit more quickly. Although the funding of BCFSC remains relatively flat, the higher payroll generated excess funds in 2011 and reduced the levy from $0.35 in 2011 to $0.20 in 2012, and $0.19 in 2013 .

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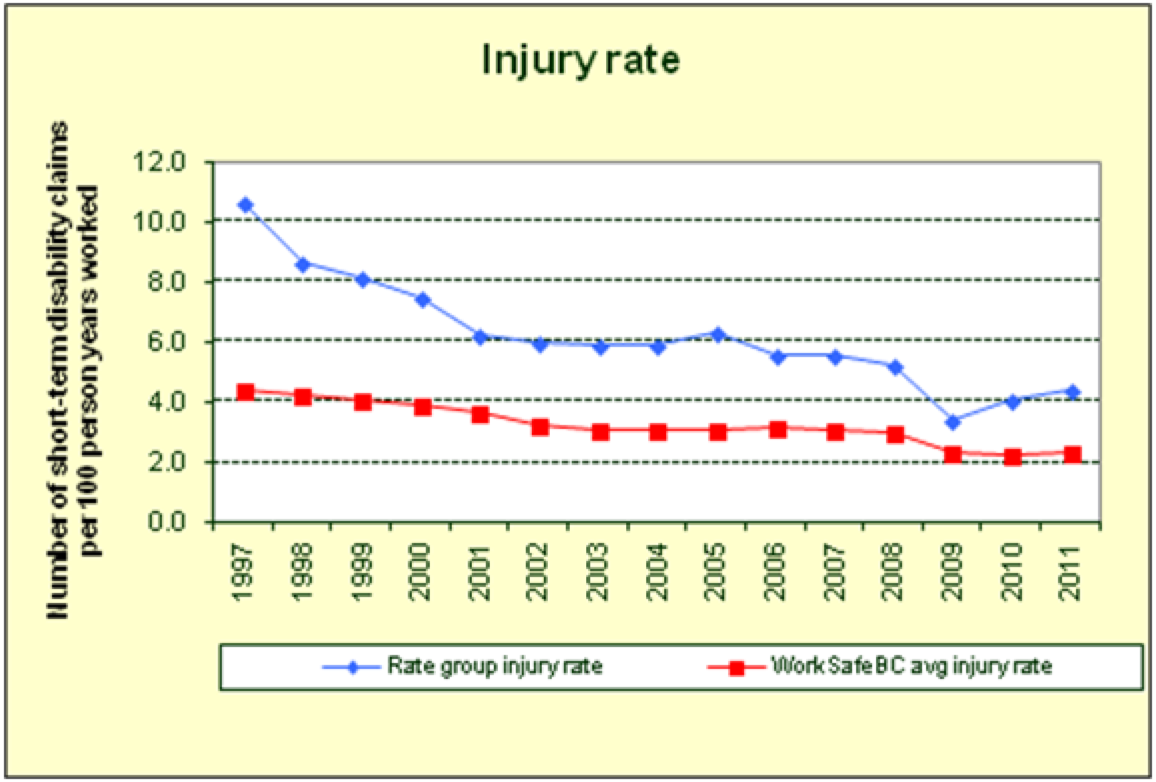
Rate Drivers

- Industry size (payroll & premiums)
- WorkSafeBC investments
- Injury rate
- Claim duration

DR Injury Rate Trend



Forestry's focus on risk mitigation caused its injury rate to decline at a faster pace that the system as a whole. This resulted in a lowering of the cost rate for rate group DR. However, the injury is trending upward. On its own this would have caused the 2013 benefit cost rate to increase.

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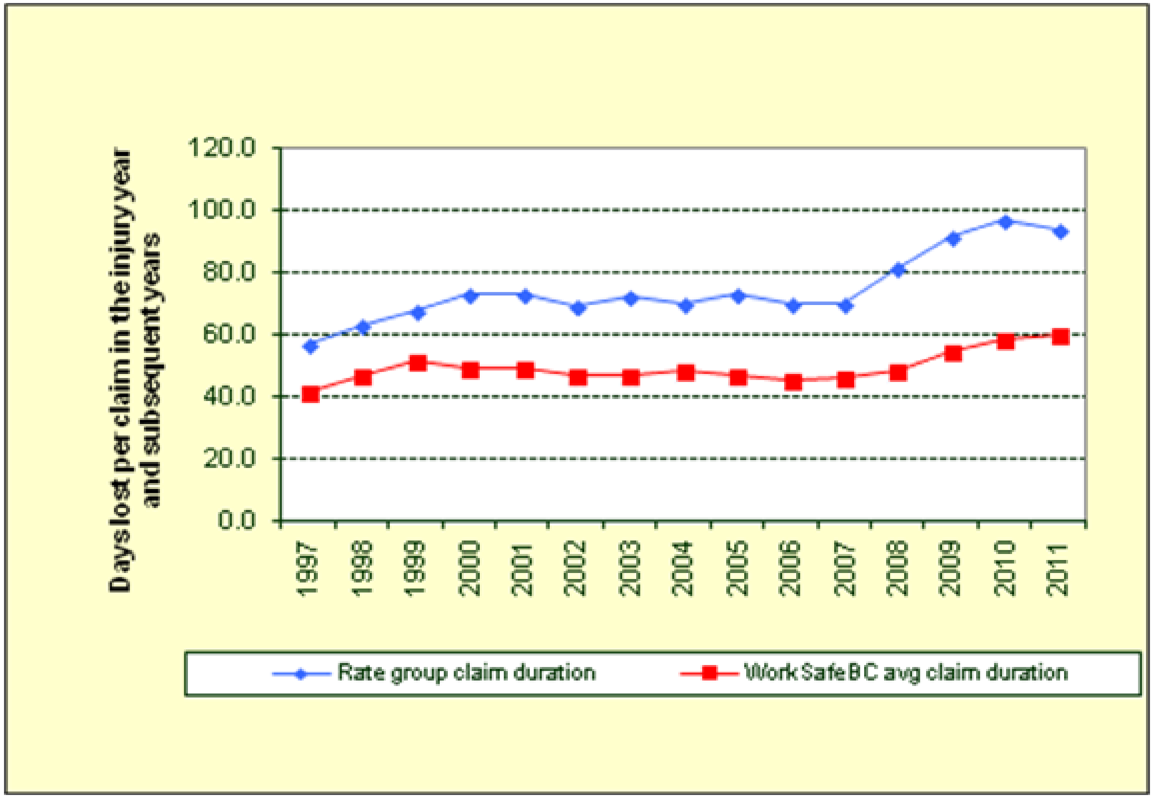
DR Claim Duration Trend



However, DR's improvement in 2011 outpaced the system as a whole and offset costs associated with increased numbers of claims.

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2013 rates for associated industries

Brushing & Weeding (from $8.35 in 2012 to $8.14 in 2013)

- Rate down due to significantly reduced rate group deficit

Tree Planting (from $2.53 in 2012 to $2.52 in 2013)

- Rate flat (but for the 1 cent drop to the FSC levy). Industry being advised that it will likely move to a higher risk rate group in 2014

Log Hauling (from $6.04 in 2012 to $6.67 in 2013)

- Rate up due to higher rate group cost rate, and loss of rate group surplus

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