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An electronic newsletter for Island employers on Workers Compensation and Occupational Health and Safety Matters

NEW EMPLOYER CLASSIFICATION STRUCTURE APPROVED

The Board of Directors of the Workers Compensation Board of PEI approved the Employer Classification Structure recommendations and implementation plan at their June 23, 2010 meeting after carefully reviewing the results of the employer classification system, rate group structure and methodology review conducted by Morneau Sobeco. The Board also considered the feedback obtained from employers at the May 25, 2010 consultation sessions as well as the written feedback received from employer groups which followed the employer consultation sessions.

The new Employer Classification Structure supports the goal of a classification process which provides fair rates based on industry risk and cost. The classification changes will correct current misalignments between current cost experience and current rates. Realignment of the classification model will provide flexibility for industry groups to move to a rate group with a lower rate if the industry has demonstrated a cost experience decrease, and similarly industry groups can move to a rate group with a higher rate if the industry has demonstrated a cost experience increase. The following are highlights of the new Employer Classification Structure:

- The classification model will continue to classify approximately 5000 employers using Standard Industrial Classification (SIC) codes, based on the **primary business activity**. Primary business activity, regardless of the occupation of individual workers, dictates the classification of an employer and the number of SIC codes (328) will not change
- New to the classification model is the assignment of SICs to 84 industry groups based on **similarity of business activity**. Industry groups will be assigned to a rate group within their class based on **cost experience only**. Industry groups will be able to move to a different rate group if the industry has demonstrated a different cost
- The number of current rate groups will be reduced from 34 to 19 so each group will have sufficient costs on which to determine an appropriate assessment rate

- Industry groups will be assigned to sector classes and the current system has 5 sector classes. The new system will have one class added and three of the existing classes will be re-aligned to the following: Sales & Professional Services; Agriculture, Fishing & Natural Resources; Manufacturing; Construction & Construction-related Services; Transportation; Public Sector & Education.
- The cost experience included in the rate group structure will include the following changes:
 - Annual costs per claims will be capped at 1x maximum assessable earnings (MAE)
 - Fatality charges will be 2.5 x MAE regardless of the cost of the claim.
 - Weights will be applied to each year of costs so all years in the 5 year cost period will have an equal impact on rates.
 - Costs associated with inactive firms will be removed where it is material to the rate for the remaining employers in the industry.
- The new model includes a formal annual monitoring process which will provide a more dynamic approach to respond to changes in industry risk and cost.

The new structure will become effective for the 2011 rates but for a minimum number of employers there will be significant positive and negative financial impacts which have been considered in the implementation plan. The Board considered the implications for those employers who will be facing significant rate increases so there will be a 1 year transition with a 50% cap on annual rate increases. This means approximately 95% of employers will go to their true rate in the first year while about 5% will be capped at 50% for the first year and then over the next 3 years the number of employers who are capped will decrease until year 4 when all employers will be at their true rate.

Included in the implementation model is a communication plan which will include, at a minimum, general communication to employers and individual communication with employers who will be significantly impacted. In addition, Board staff will meet with industry sectors which will be most impacted to explain the changes and to advise on how employers can start working on reducing their rates. Further communication will be provided in the fall once information is available on the 2011 assessment rates.