10 YEAR PERSPECTIVE ON INSURANCE RATES IN THE FOREST INDUSTRY

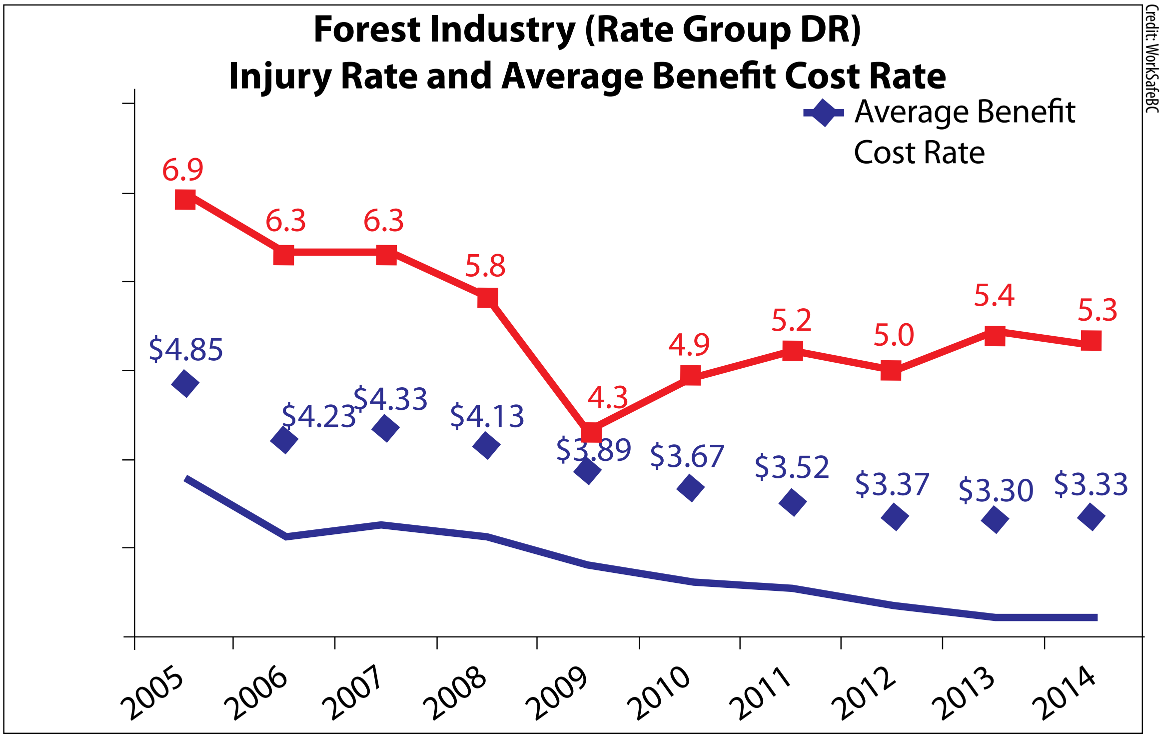
Over the last decade or so, we've seen an overall lowering of injury rates and recorded a reduction in the number of workplace deaths. As a result, we've also seen a corresponding decrease in claim costs in the sector. In the early 2000's, claim costs topped out above $80,000,000 per year while the claims paid out in forestry last year amounted to $49,354,151.

We have often heard safety advocates like Reynold Hert, the former CEO of the BC Forest Safety Council, champion the view that reducing injuries improves the overall operation and that it even leads to greater productivity and profitability. And you may have heard at WorkSafeBC rate consultation sessions that you need to reduce your injury rates and decrease the cost of claims through measures such as better return to work outcomes in order to drive down your insurance premiums. That is still the magic formula.

Industry insurance rates are driven by two factors—the number of claims and the cost of those claims. The more claims you have—both as an industry and as an individual employer—and the higher your claim costs are, due to severity of injury and related healthcare and rehabilitation services, the higher your insurance premiums will be.

There is, however, a third intervening factor linked to the return on investments from the premiums that WorkSafeBC collects from you as an employer. Insurance premiums must cover the current and future needs of injured workers, some of whom may require healthcare and other services for many years. To cover the cost of those needs and maintain low and stable rates, WorkSafeBC invests a portion of the premiums collected from employers. Returns from those investments have been used to offset the difference between the average base premium rate charged to employers and the rising benefit cost rate. For example, money from the Capital Adequacy Reserve, a fund set up to reduce volatility in premium rates, was used to offset the insurance rates for forestry employers in 2015 and 2016.

An industry base rate specific to a given classification unit is the number usually referenced when one talks about insurance premiums. That is because the rate is directly tied to the amount that's charged to employers. However, it may not be the truest reflection of the sector's current safety performance. This is because the base rate includes other components, such as amortization adjustments, which reflect rate group deficits incurred by the industry in previous years, along with other elements such as the effects of above mentioned investment returns. All this makes it difficult to gauge a given industry's base rate against its safety accomplishments.



Perhaps what gives a more accurate picture of the industry's health and safety performance is the average benefit cost rate, which reflects the multi-year average of disability claims, survivor benefits, health care, and rehabilitation costs charged directly to the rate group. If we examine both the injury rates and the average benefit cost rate in forestry, as represented by Rate Group DR, we see a general downward trend in injury rates from 2005 to 2009, but then a moderate rising trend through 2014[1]. In terms of the benefit cost rate, the downward trend continues through 2013, but then it rises onward. In dollar terms, we see that the average benefit cost rate for Rate Group DR went from a high of $4.85 per $100 of assessable payroll, to a low of $3.30 in 2013. It has since jumped to $3.59 in 2015 and $3.90 in 2016, reflecting a rise in claims costs. As far as trends go, any such upward movement should be seen as a prompt for further action to curb injuries and reduce associated claims costs.

While industry wide cost rates are a valuable indicator of the sector's performance, it is also important to remember that everyone isn't on the same scale. Individual employers may pay higher or lower premiums than the average based on their respective discounts or surcharges, which are called *experience rating adjustments* and are related to the individual firm's claim costs. Employers can earn discounts of up to 50 percent on their base premium rate if they have lower claim costs than others in the industry, or they could face surcharges of up to 100 percent. This means that a firm with $1 million payroll and exhibiting average performance in an industry with a base rate of $9.75 (which corresponds to the 2016 rate for Integrated Forest Management Classification Unit) would pay $97,500. However, based on a favourable health and safety record over time, the same employer could pay as little as $48,750. By comparison, if this firm experiences claims that are higher than those of other employers in the industry, it could end up paying as much as $195,000, based on its record over time. It is certainly worth it for any employer to review the firm's claims history to determine what could be done to reduce those claims costs and the resulting premiums.

When we reflect back on the last decade or so, the year 2005 truly stands out as a watershed moment for British Columbia's forest industry from a safety perspective. Injury rates had soared at the time and the general public was starting to express its outrage at the number of deaths and injuries in the woods. Industry, along with labour, government, and WorkSafeBC acted with the formation of the Forest Safety Task Force, the Safety Accord, and the creation of the BC Forest Safety Council. It is reasonable to conclude that these various efforts have contributed to the subsequent downward trend in workplace injuries. However, while the statistics show an overall reduction in injury rates in the forest industry they also suggest significant room for further improvement. After all, the injury rate in forestry is still more than twice the provincial average (5.3 vs. 2.3). And the manual tree falling and bucking injury rate is 28.9. This is a marked drop from the 2005 injury rate of 35.9 for that classification unit. However, it still roughly translates to one in four workers being injured on the job.

Note to reader:
Injury rates for 2015 will be published when industry employment numbers become available later this summer.

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