

Client Services Procedure Manual

Procedure: 505.00
Subject: PRIME Calculations

505.01 Introduction

Employers who are eligible for PRIME, as defined by Policy PR-01 “PRIME – Overview”, may receive practice refunds under the practice incentive component and experience refunds, charges, or neither under the experience incentive component of PRIME. All practice refunds and experience refunds or charges are applied to the employer’s account and are included on the employer’s invoice(s). This procedure identifies the different PRIME calculations and applies these calculations to a sample employer.

505.02 Practice Refund Calculation

An employer’s annual practice refund is applied if the employer has fulfilled all the applicable health and safety and return to work requirements in accordance with the practice incentive policy that applies to them.

The 5% practice refund is calculated using the employer’s average calculated base assessment for the PRIME base period. An employer’s PRIME refund is generally applied in the PRIME year plus one. For example, for the PRIME year 2007, the practice refund would be applied in 2008.

The following outlines the calculation process for the PRIME practice refund and a sample calculation is provided in the subsequent table.

1. Identify the PRIME base period. The PRIME base period is PRIME year minus two, PRIME year minus one, and PRIME year. For example, for the PRIME year 2007, the PRIME base period is comprised of the years 2005, 2006 and 2007.
2. Identify the Newfoundland Industrial Classification (NIC) code(s) and calculated base rates^[1] for each of the assessment years in the PRIME base period.
3. Calculate the annual base assessment for each of the years in the PRIME base period by multiplying the base rates by the assessable payroll divided by 100 for all industries except the logging industry. For the logging industry, multiply the base rates by the cubic meters of wood. Assessable payroll may be the amount reported by the employer or audited or estimated by WorkplaceNL.

^[1]An employer’s calculated rate may differ from the base rate that the employer actually pays as a result of WorkplaceNL’s annual rate setting process. As part of WorkplaceNL’s rate setting process, it regularly reviews industry groupings. Changes in industry groupings can sometimes cause significant rate changes that are phased in over a period of time. The calculated rate is the industry base rate that the employer would be paying if there was no phase-in period. The applied base rate is the industry base rate the employer will actually pay in a particular year during that phase-in period.

Formula for payroll based assessment:

$$\text{annual base assessment} = \text{calculated base rate} \times \frac{\text{assessable payroll}}{100}$$

or

Formula for logging industry:

$$\text{annual base assessment} = \text{calculated base rate} \times \text{cubic meters of wood}$$

4. Calculate the average base assessment for the PRIME base period:

Formula:

$$\text{average base assessment in PRIME base period} = \frac{\text{total annual base assessments in PRIME base period}}{\text{number of years with an assessment in the PRIME base period}}$$

5. Calculate the PRIME practice refund:

Formula:

$$\text{PRIME practice refund} = 5\% \times \text{average calculated base assessment}$$

Sample Employer Calculation

PRIME year 2007 (Step 1)	Calculated base rate per \$100 of payroll (Step 2)	Actual assessable payroll	Annual calculated base assessment (Step 3)
2005 (PRIME year minus two)	\$2.00	\$550,000	\$11,000
2006 (PRIME year minus one)	\$2.10	\$571,450	\$12,000
2007 (PRIME year)	\$2.20	\$590,950	\$13,000
Total annual base assessment for PRIME base period			\$36,000
Average calculated base assessment (Step 4)			\$12,000
5% PRIME practice refund (Step 5)			\$600

505.03 Experience Incentive Range Calculation

The experience incentive range is the range of claim costs against which WorkplaceNL compares the employer’s actual claim costs.

The following outlines the calculation process for an eligible employer’s experience incentive range and a sample calculation is provided below using the sample employer identified in the preceding section 505.02, *Practice Refund Calculation*.

1. Calculate the average calculated base assessment for the PRIME base period as per Steps 1 to 4 in the preceding section 505.02, *Practice Refund Calculation*. For the sample employer, the average calculated base assessment is \$12,000.
2. Calculate the employer’s corridor factor for the PRIME year. The corridor factor decreases as the employer’s average calculated base assessment increases. As well, at and below the level of \$1,000, the corridor factor is set at 92%, and at and above the level of the PRIME Assessment Limit, currently at \$48,000, the corridor factor is set at 20%.

Formula (as derived by WorkplaceNL’s Actuary):

$$\text{employer corridor factor} = \$12,000 \div (\$12,000 + \text{average calculated base assessment})$$

The sample employer’s corridor factor is 50%, and is calculated as follows:

$$\begin{aligned} \text{Sample employer corridor factor} &= \$12,000 \div (\$12,000 + \$12,000) \\ &= 50\% \end{aligned}$$

3. Determine the claim factors, as per WorkplaceNL’s Actuary. These factors are reviewed annually and are therefore subject to change. They allow small fluctuations in experience to be ignored, while rewarding employers with low costs and penalizing employers with high costs. The claim factors for the 2007 PRIME year are:

Actuarial Claim Factors – 2007 PRIME Year	
2005 – PRIME year minus two	6.0%
2006 – PRIME year minus one	12.0%
2007 – PRIME year	12.0%

The corridor factor of 50% calculated in Step 2 is applied to the actuarial claim factors above to determine each individual employer’s low cost and high cost claim factors. The low cost factors are 50% lower than the actuarial claim factors shown above, while the high cost factors are 50% higher.

For the sample employer, the claim factors for the year 2007 are as follows:

Sample Employer - Claim Factors

Years	Low Cost	Actuarial Claim Factors	High Cost
2005	3.0%	6.0%	9.0%
2006	6.0%	12.0%	18.0%
2007	6.0%	12.0%	18.0%

4. Calculate the bottom of the range by multiplying the low cost claim factors for each year by the assessment for each year. Add together the results for each year to determine the bottom of the experience incentive range.

For the sample employer, the bottom of the range for 2007 is \$1,830.00 as illustrated in the following table.

Sample Employer - Bottom of Experience Incentive Range

Years	Claim Factors	Annual calculated base assessment	Bottom of Range
2005	3.0%	\$11,000	\$330.00
2006	6.0%	\$12,000	\$720.00
2007	6.0%	\$13,000	\$780.00
Bottom of experience incentive range			\$1,830.00

5. Calculate the top of the range by multiplying the high cost claim factors for each year by the assessment for each year. Add together the results for each year to determine the top of the experience incentive range.

For the sample employer, the top of the range for 2007 is \$5,490.00 as illustrated in the following table.

Sample Employer - Top of Experience Incentive Range

Years	Claim factors	Annual calculated base assessment	Top of range
2005	9.0%	\$11,000	\$990.00
2006	18.0%	\$12,000	\$2,160.00
2007	18.0%	\$13,000	\$2,340.00
Top of experience incentive range			\$5,490.00

505.04 Experience Refund/Charge/Neither Calculation

Employers who qualify for the PRIME experience incentive component may qualify for an experience refund, charge or neither depending on how their actual claim cost experience compares with their experience incentive range for the PRIME year. Employers who do not qualify for the practice refund will not qualify for an experience refund but will be subject to experience charges where applicable.

The following outlines how an individual employer’s experience refund, charge or neither is determined and a sample calculation is provided using the employer example identified in the preceding sections of this procedure.

1. Calculate the employer’s range as illustrated in Steps 1 to 5 in the preceding section *505.03, Experience Incentive Range Calculation*. For this example, the employer’s experience incentive range is:

Sample Employer Experience Incentive Range:
Bottom of range: \$1,830.00
Top of range: \$5,490.00

2. Once the employer’s range is calculated, accumulate actual claim costs and all applicable adjustments for the employer for the PRIME year as defined in PRIME Policy PR-01 “PRIME Overview”.
3. Compare the employer’s PRIME claim costs for the year to their experience incentive range for the year. The total cost may be below the range, above the range, or within the range. If the actual claim cost is greater than the top of the range, calculate the difference between the total PRIME costs and the top of the range. If the actual claim cost is less than the bottom of the range, calculate the difference between the bottom of the range and the total PRIME costs. These differences are used in determining the amount of the employer’s experience refund or charge. If the actual claim cost is within the range, there is no difference.

The following table illustrates the sample employer’s PRIME claim costs compared to their experience incentive range. This employer is above the top of their range by \$4,510.00.

Sample Employer - PRIME claim costs compared to experience incentive range

Y-T-D PRIME Cost	Bottom of Range	Top of Range
\$10,000.00	\$1,830.00	\$5,490.00
The PRIME Cost is above the top of the range by: (\$10,000.00 less \$5,490.00)		\$4,510.00

4. Calculate the average calculated base assessment for the PRIME base period as illustrated in Steps 1 to 4 in the preceding section 505.02, *Practice Refund Calculation*. For this example, the average calculated base assessment is \$12,000.00.

5. Express the experience refund/charge/neither for the PRIME year in terms of a percentage by dividing the amount above/below/within the range by the average calculated base assessment during the PRIME base period.

Formula:

$$\text{Experience (refund/charge/neither) \%} = \frac{\text{amount above/below/within the range}}{\text{average calculated base assessment}}$$

The sample employer’s experience percentage is 37.5% and is calculated as follows:

Sample Employer

$$\begin{aligned} \text{Experience charge \%} &= \frac{\$4,510.00}{\$12,000} \\ &= \mathbf{37.5\%} \end{aligned}$$

Maximum rule

Where this comparison results in a less favourable position than the previous year, the percentage cannot move by more than the maximum rule. Where this comparison results in a more favourable position than the previous year, there is no established cap or limit on the amount by which the percentage can move.

The maximum rule is applied to ensure that employers are protected from large increases in their assessments from year to year. At and below the level of \$1,000 average calculated base assessment, the maximum amount by which an employer can be in a less favourable position is set at 5%. For each additional \$1,000 of average assessment, an additional 1% of increase is added, up to a maximum of 20%. The maximum 20% is applied to all employers at \$16,000 or more in average assessments.

Employers who do not qualify for the practice refund will not qualify for an experience refund, but any experience charge will be applied.

The sample employer was in a 10.0% refund position in the previous year. Because the sample employer has an average calculated base assessment of \$12,000, the maximum rule states that this employer cannot be in a greater than 16% less favourable position. 16% less favourable than a 10.0% refund is a 6.0% charge.

Formula:

$$\text{current years' experience \%} = \text{previous years' experience \%} - \text{maximum rule \%}$$

Sample Employer

$$\begin{aligned} \text{current years' experience \%} &= 10.0\% \text{ refund} - 16\% \\ &= 6.0\% \text{ charge} \end{aligned}$$

Sample Employer – PRIME experience refund/charge/neither percentage

Experience refund/charge/neither percentage	Experience %	Experience position
Previous Year Position (refund, charge or neither)	10.0%	Refund
Current Year Position (before maximum rule) – as per Step 5 in the preceding section 505.04, <i>Experience Refund/Charge/Neither Calculation</i>	37.5%	Charge
Current Year Position (after maximum rule)	6.0%	Charge
The maximum rule is applied in this example because the difference between the 10.0% refund and the 37.5% charge would result in a less favourable position of 47.5%. The maximum rule applies and the 10.0% refund last year results in a 6.0% charge in the current year.		

6. If the maximum rule applies, determine the amount of the experience refund/charge/neither by multiplying the current year percentage (after the maximum rule) by the average calculated base assessment.

If the maximum rule does not apply, determine the amount of the experience refund/charge/neither as the amount above/below/within the range.

Apply the experience refund only if the employer qualifies for the practice refund. Experience charges and neither are always applied.

For the sample employer, the amount of their experience charge is \$720.00.

Sample Employer – experience charge amount applied

Average calculated base assessment	\$12,000
Experience charge percentage	6.0%
Amount of Charge	\$720.00
Status of Charge	Applied

505.05 PRIME Assessment Limit

The PRIME assessment limit is used to determine whether an employer is a large PRIME assessment employer. An employer is considered a large PRIME assessment employer if the employer’s average calculated base assessment for the PRIME base period is greater than or equal to the PRIME assessment limit. This PRIME assessment limit is reviewed annually by WorkplaceNL’s Actuary to determine if an adjustment is required. The following table identifies the PRIME assessment limits for the years 2005 to 2008:

Year	PRIME assessment limit
2005	\$54,000
2006	\$51,000
2007	\$48,000
2008	\$48,000

Sample employer and PRIME assessment limit

As illustrated in steps 1 to 4 of section 505.02, *Practice Refund Calculation*, the sample employer’s average calculated base assessment for the 2007 PRIME year is \$12,000. The PRIME assessment limit for 2007 is \$48,000. Based on the PRIME policies in effect for the 2007 PRIME year, this employer is not considered a large PRIME assessment employer.

Reference: *Policies: PR-01 PRIME Overview,
PR-02 PRIME Calculations*

Amendment History

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