

VI. Summary and Conclusions

In this report, we have carefully derived estimates of the cost of workers' compensation insurance in Ontario, which we have compared with similar estimates of workers' compensation costs in British Columbia and 48 U.S. jurisdictions. We believe that these cost estimates are superior to those reported in our earlier study comparing workers' compensation costs in Ontario and British Columbia (Thomason and Burton 2000) in a number of ways. First, with the assistance of actuaries at the WSIB, we were able to better match Ontario rate groups with the NCCI classifications we use for our U.S. data. Second, we have derived a superior method for treating U.S. occupational classifications. Third, we use more appropriate adjustments to account for the unfunded liability. Finally, our method of adjusting rates to account for the differences between the United States and Canada in the payroll used to determine assessments or premiums.

Overall, these methodological changes resulted in higher adjusted manual rates for Ontario compared with those reported in the earlier study. Most of the difference between the costs reported in this study and those reported in the previous study is due to difference in the payroll adjustment. While it is arguable that the current study underestimates the payroll adjustment needed to equate gross with assessable payroll and therefore overestimates costs, we believe that the procedure used in the current study leads to more accurate costs estimates than our earlier work.

As was true for the earlier study, in general, we found that Ontario compensation costs compare favorably with those of these other jurisdictions. Our estimates of the actual total market rates suggest that Ontario costs are equal to or lower than costs in the median cost jurisdiction in our sample. In recent years, actual Ontario costs are less than those of over 80 percent of the jurisdictions in our sample.

When we adjust our estimates to account for Ontario's payments of the unfunded liability, this costs comparison is even more impressive. The "current cost" estimates indicate that the employers' costs of workers' compensation insurance in Ontario is well below that of the median

cost jurisdiction in our sample for all but the first two years of the study period. In recent years, Ontario is among the four lowest costs jurisdictions in North America.

Furthermore, an examination of cost comparisons more relevant to the competitiveness issue indicate that workers' compensation costs in Ontario are unlikely to unfavorably affect the competitiveness of Ontario employers. The data suggest that the actual costs of workers' compensation for Ontario manufacturing firms, which are most likely to be adversely affected by high labor costs relative to other jurisdictions, compares favorably with those of other North American jurisdictions. In addition, Ontario costs are well below those of the average cost of workers' compensation insurance in contiguous U.S. states for most years in our study period.

In addition to examining "gross" workers' compensation costs paid by Ontario and other jurisdictions, we have also attempted to measure the efficiency of the Ontario workers' compensation delivery system relative to the efficiency of other North American jurisdictions. We did this by estimating multiple regression equations predicting employer costs as a function of dummy variables indicating jurisdiction as well as a number of other variables affecting costs, including the generosity of cash benefits and the injury rate. After controlling for these other influences, the jurisdiction dummy should provide a reasonably accurate measure of average administrative costs over the study period.

While our regression analysis is similar to that used in Thomason and Burton (2000), we have made several improvements over our earlier study. First, we have used different data sources and methods to construct more appropriate measures of our control variables. Second, we use a fixed-effect regression analysis to estimate the relative efficiency of the Ontario program rather than the random-effects analysis used in the earlier study. Finally, we have attempted to control for the endogeneity of costs and self insurance by estimating three-stage least square regression equations rather than a reduced-form equation predicting adjusted manual rates as a function of self-insurance. We believe that our methods are more defensible than those used in the earlier study.

The results of these analyses suggest that one of the reasons that Ontario is a low costs jurisdiction is because it has a relatively efficient delivery system. Our data indicate that for the period examined in our analysis (1975-95), the delivery system efficiency in Ontario was higher than the efficiency of all but five other jurisdictions in our sample.