

F10 - Assessment
Rates (2018)
11553811



TO: Board of Directors
FROM: Donald Blue, Vice-President and Chief Actuary
DATE: June 21, 2017
CLUSTER: Finance
SUBJECT: Rate Setting for 2018
SUBMISSION: Information

Issue

The preliminary 2018 average rate requirement prepared by the Chief Actuary is submitted for Board of Directors review.

Background:

We have completed detailed analysis of preliminary 2018 rate requirements, reflecting the Board's updated financial position as at December 31, 2016 and incorporating the revised method of determining actuarial liabilities implemented as at December 31, 2016. The analysis tests projected Sufficiency Ratios under various scenarios, combining rate increases, differing new claims costs, rates of investment return and patterns of economic development.

The current funding trajectory suggests that achievement of 100% funding is possible much earlier than had previously been expected. This led us to consider a longer-term pricing strategy, which is summarized in the analysis. Note that this longer term strategy does not affect the preliminary 2018 rate recommendation, but has implications for future rate decisions.

Relevant Factors:

Appended to this memorandum for your review is a presentation setting out the results of our projections, summarizing other relevant information and presenting a preliminary assessment of the required rate.

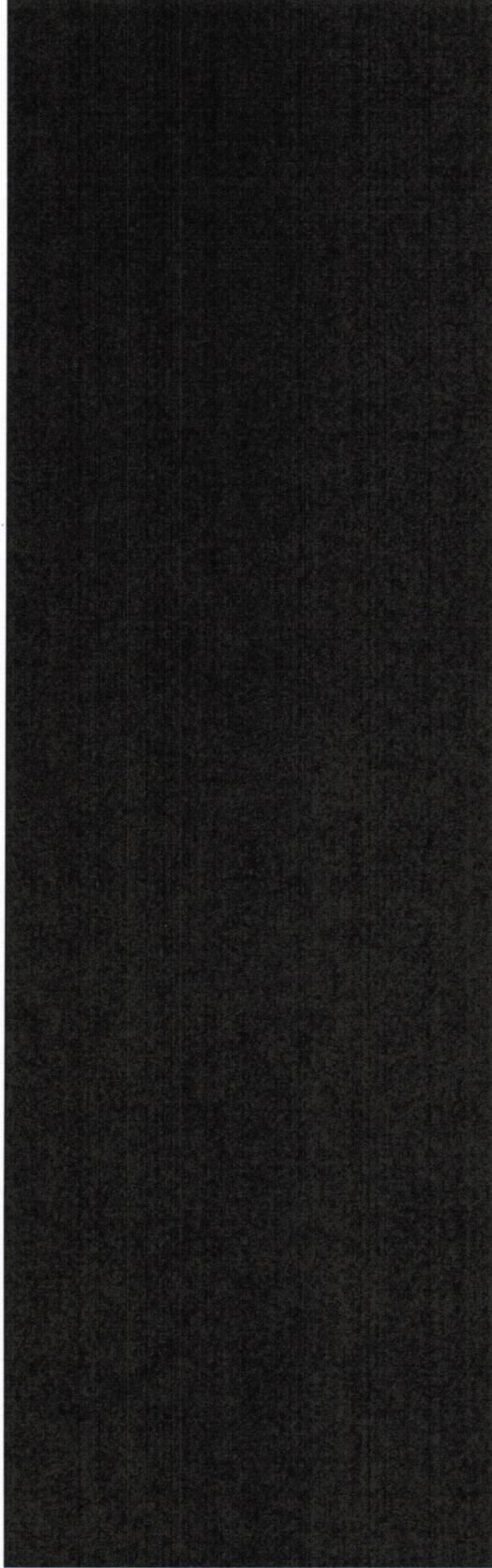
"SEE" BOD Minute #4, June 21, 2017, Page 7517 ↗

Board of Directors June 21, 2017

Preliminary 2018 Rate Strategy and Premium Rate

Preliminary Recommended 2018 Premium Rate Action

- Our preliminary recommendation is an average Schedule 1 premium rate reduction of 3% i.e. from \$2.43 per \$100 of Insurable Earnings to \$2.36 per \$100 of Insurable Earnings



- Please refer to slide #8 for additional details on the options
- The subsequent slides in the deck provide relevant detail to support our preliminary recommendation

2017 Funding Projection Scenarios

- Various Funding Scenarios are prepared reflecting the latest set of assumptions:
 - Base case (assumes 6.2%, 3.0%, 0% premium rate reductions for 2017, 2018 and 2019, respectively)



See slide #5 for summary results

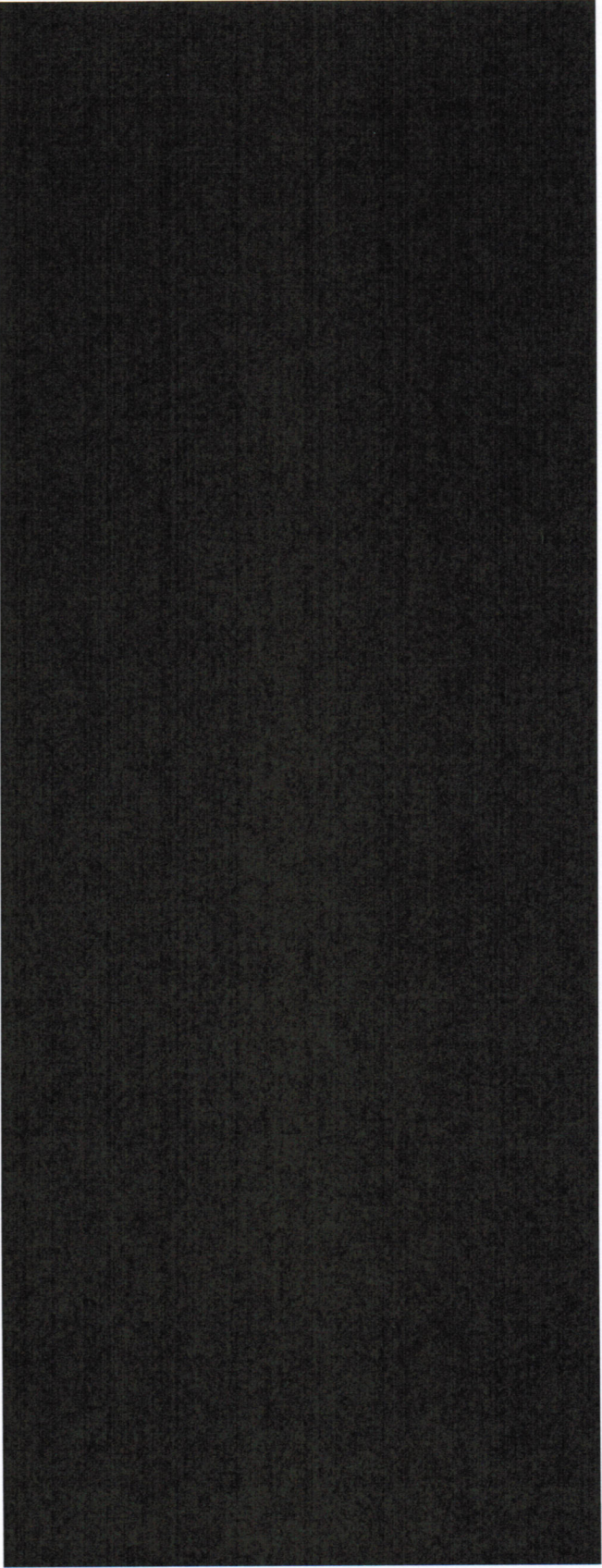
- Adverse scenarios are also prepared to assess the potential risk exposure
- The different scenarios enable us to consider the rate setting strategy before the Rate Framework is implemented

Comparison of Assumptions

Key Assumptions	2016 Funding Base Assumptions (for 2017 rate setting)	2016 Economic Statement Assumptions
Long Term Target Investment Rate	5.25%	5.25%
Investment Returns	2016-2019 : 3.5% 2020+ : 5.25% Level equivalent rate of about 4.6%	2016-2019 : 3.5% 2020+ : 5.25% Level equivalent rate of about 4.6%
Discount Rate	4.75%	4.75%
Insurable Earnings Growth	2016-2017: 2.5% 2018+: 2.0%	2016-2017: 2.5% 2018+: 2.0%
NCC	\$0.85 (2016), \$0.93 (2017+) Base NCC: \$0.75 PTSD: \$0.01 Indexation: \$0.01 Firefighters Presumptive: \$0.01 Margin: \$0.15 (breakdown for NCC = \$0.93)	\$0.85 (2016), \$0.93 (2017+) Base NCC: \$0.75 PTSD: \$0.01 Indexation: \$0.01 Firefighters Presumptive: \$0.01 Margin: \$0.15 (breakdown for NCC = \$0.93)
Chronic Mental Stress (CMS)	none	none

Premium Rate Reductions

- Premium rate reductions for 2018 and 2019 lowered to 3.0% and 0% from 5.0% (in 2016 Funding) for the following reasons:
 - Ensure solid financial position at Rate Framework implementation in 2020
 - Uncertainty about cost of CMS
 - Enables potential larger decrease in the year of introduction of RFM to smooth transition
 - Provided greater than a 5.0% decrease in 2017 premium rates



2017 Base Scenario Funding Projections

Basis	NCC/\$100 IE		Indexation		Investment Returns		Discount Rate		Insurable Earnings Growth		Prudency Formula
	Benefit		Full	Partial	2016-2017	2018+	2016-2017	2018+	2015-2017	2018+	
2016 Funding - Base	\$0.85(2016), \$0.93(2017+)		2.0%	0.5% (2016), 1.0%(2017), 2.0%(2018+)	3.5%	3.5%(2018-2019), 5.25%	4.75%	4.75%	2.5%(2016- 2017)	2.0%	8.5% of Rev Prem
2017 Funding - Base	\$0.95		2.0%	1.0%(2017), 2.0%(2018+)	3.0%	3.0%(2018-2019), 4.75%	4.50%	4.50%	2.5%(2017)	2.0%	8.5% of Rev Prem

Note: The indexation assumptions prior to 2018 assume indexation is applied to gross earnings. Indexation assumptions for 2018 and later assume indexation is applied to the benefit rate.

Basis	Premium Rate				Sufficiency Ratio				100% SR Achieved							
	2016	2017	2018	2019	2020	2021	2022+	2016		2017	2018	2019	2020	2021	2022	2027
2016 Funding - Base (6.2%, 5% premium rate reductions for 2017-2019)	\$2.57	\$2.42	\$2.30	\$2.11	\$2.12	\$2.12	\$2.12	\$2.12	84.4%	89.4%	93.1%	95.3%	97.5%	103.3%	123.4%	2021
2017 Funding - Base (6.2%, 3%, 0% premium rate reductions for 2017-2019)	\$2.59	\$2.43	\$2.36	\$2.36	\$2.28	\$2.28	\$2.28	\$2.29	87.4%	92.7%	96.6%	99.8%	103.4%	110.2%	134.0%	2019

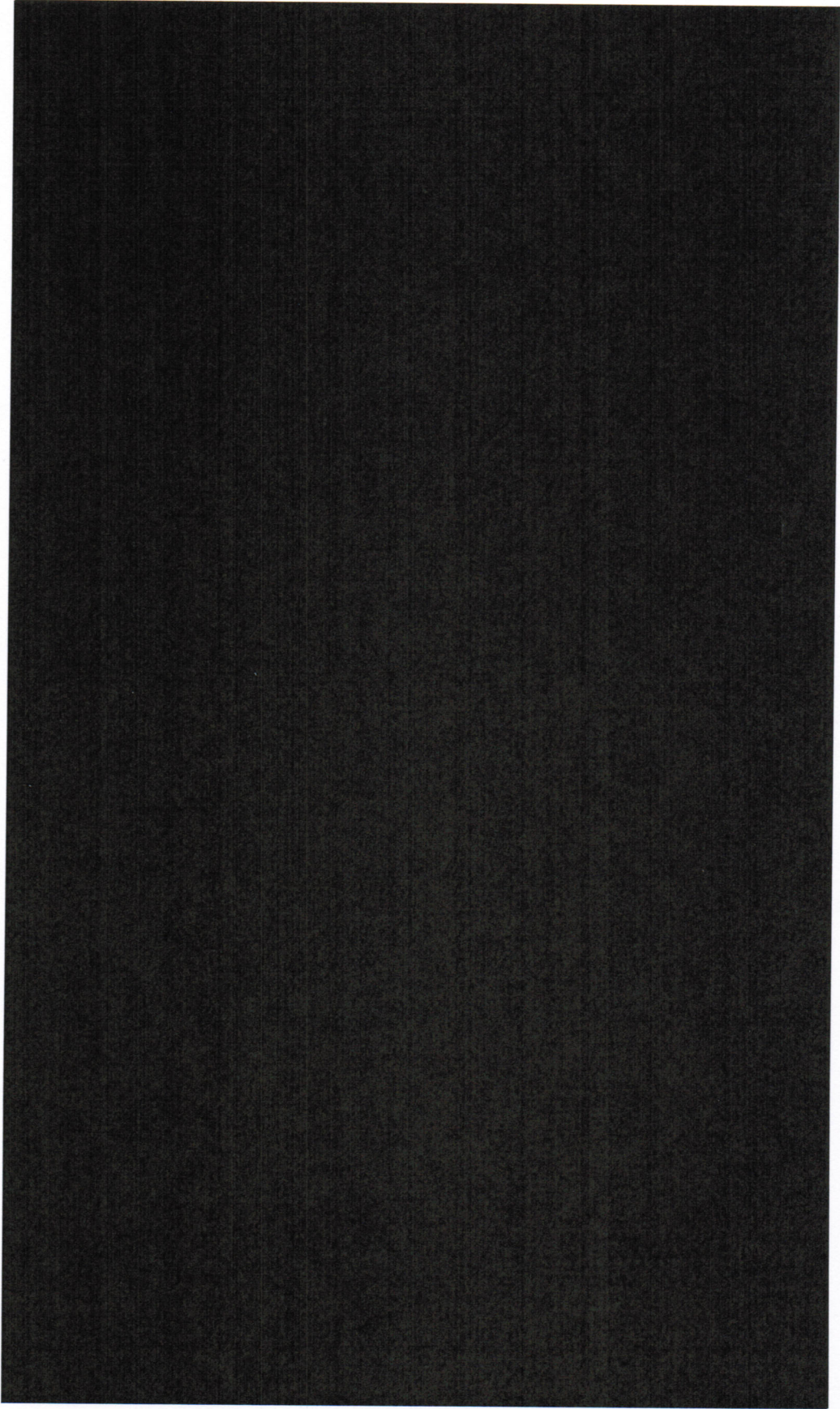
2017 Funding Projections – Adverse Scenarios

Scenario	Industry Sector	Insurable Earnings	Sensitivity Applied (Years)	NCC	Investment Rate of Return	Premium Decrease
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Adverse 1 All 1.5%(2017-2019), normal growth thereafter 3 No change Investment loss of 1% in 2017 followed by a 15% loss in 2018 (2017 to 2019)

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Discussion - Employer's Rate Setting Options



Possible Next Steps

- July/August: Discuss proposed 2018 preliminary rates with AAC/CAC
- August: Recommend 2018 rates to BoD
- September: Communicate 2018 rates to employers and release of Economic Statement and Sufficiency Plan Update

Appendix

1. Rate Groups where NCC plus Admin exceeds the Total Rate
2. Rate Groups with further decreases due to 2017 Target change from \$2.59 to \$2.46

Summary of 2017 Published Rates to [REDACTED] by Class [REDACTED]

Premium rates and premium rate components under 2017 Published Rates, [REDACTED]

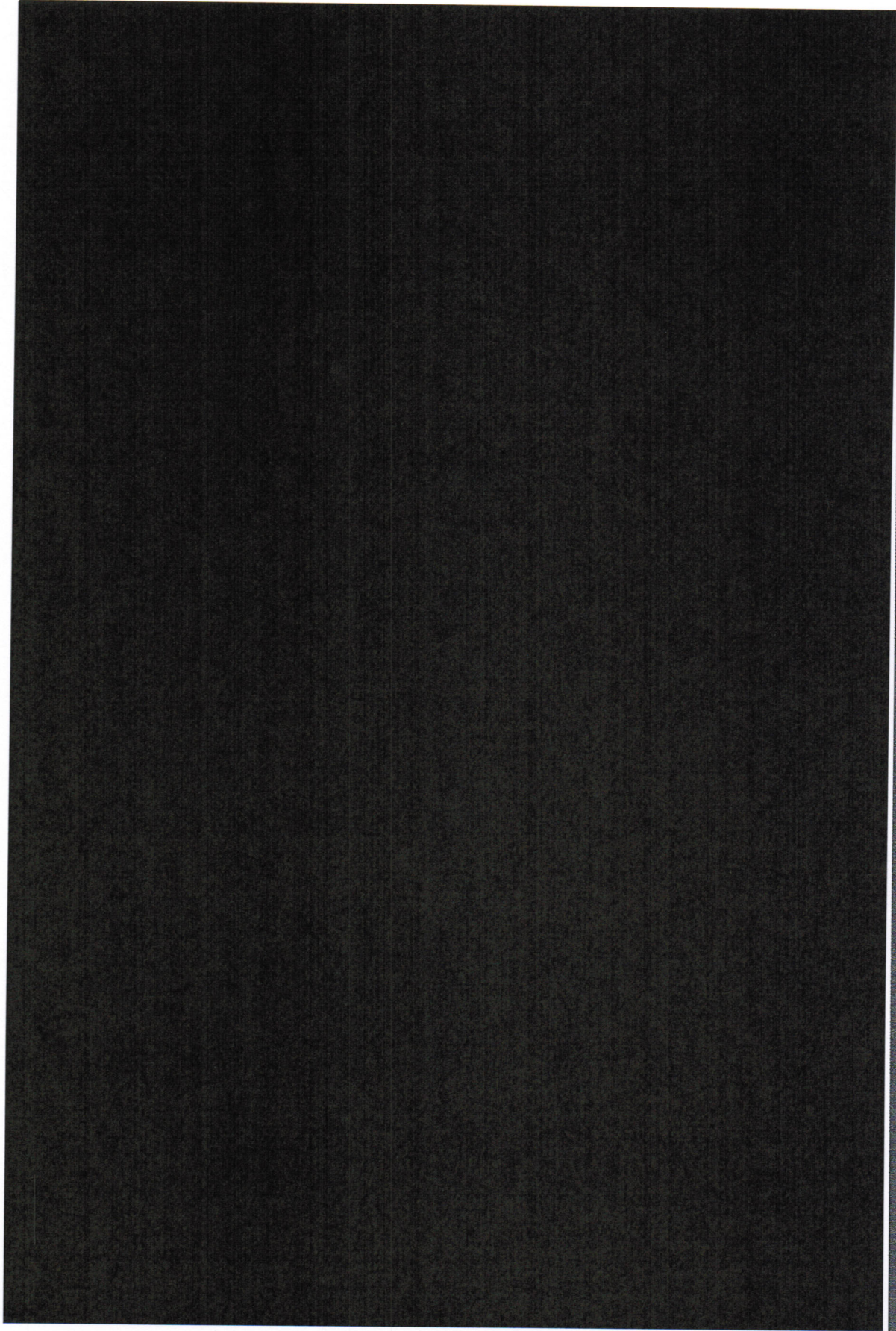
Class Description	2017 Published Rates (added)			
	New Claims Cost Rate	Overhead Rate	Past Claims Cost Rate	Premium Rate
Forest Products	2.872	1.156	1.436	5.46
Mining and Related Industries	2.307	1.163	2.776	6.25
Other Primary Industries	2.136	0.864	1.151	4.15
Manufacturing	1.033	0.545	0.927	2.51
Transportation and Storage	2.164	0.830	2.049	5.04
Retail and Wholesale Trades	0.602	0.385	0.716	1.70
Construction	2.136	0.897	2.755	5.79
Government and Related Services	0.508	0.316	0.543	1.37
Other Services	0.384	0.264	0.546	1.19
Schedule 1	0.930	0.479	1.019	2.43

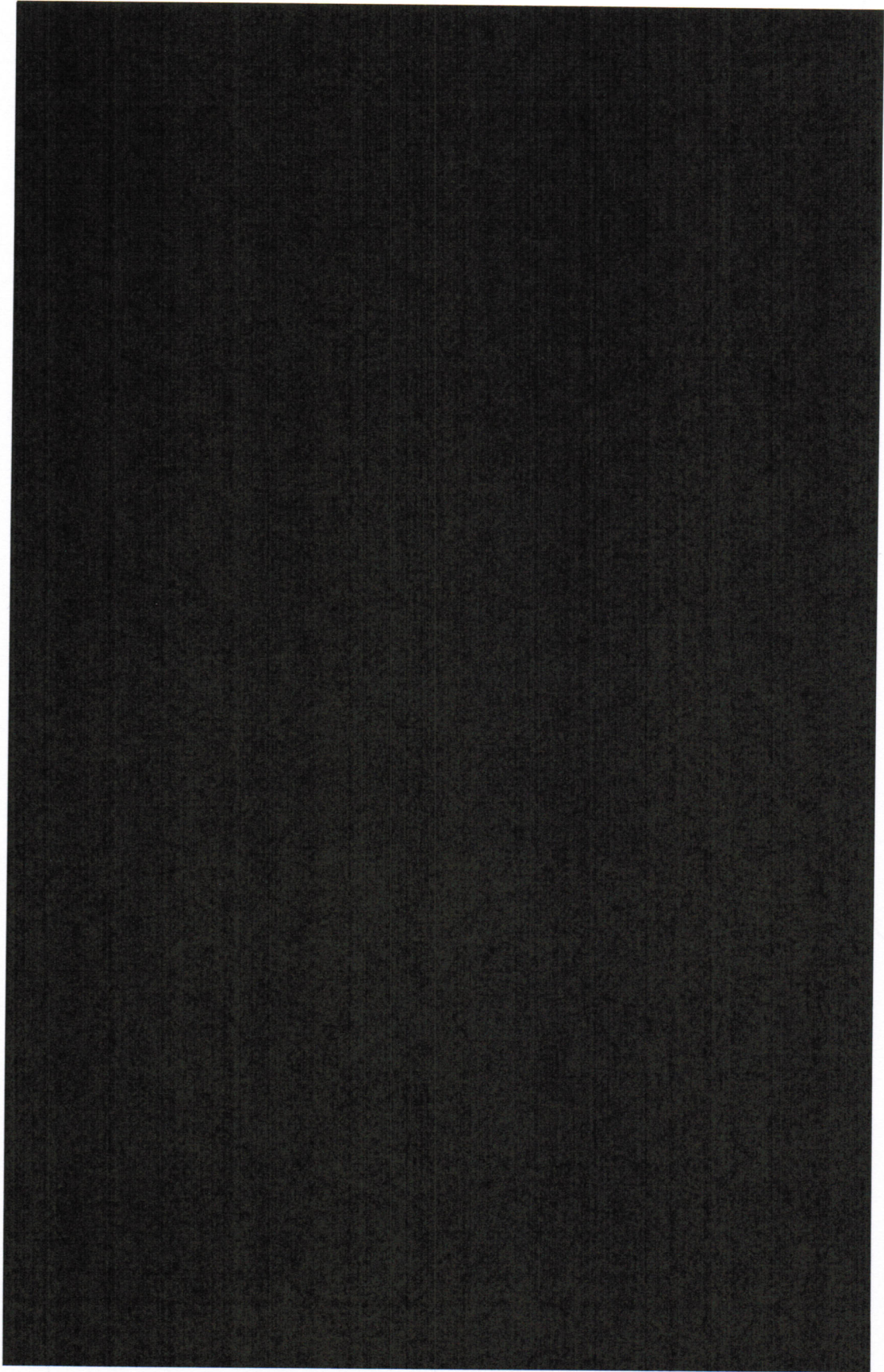
[REDACTED]

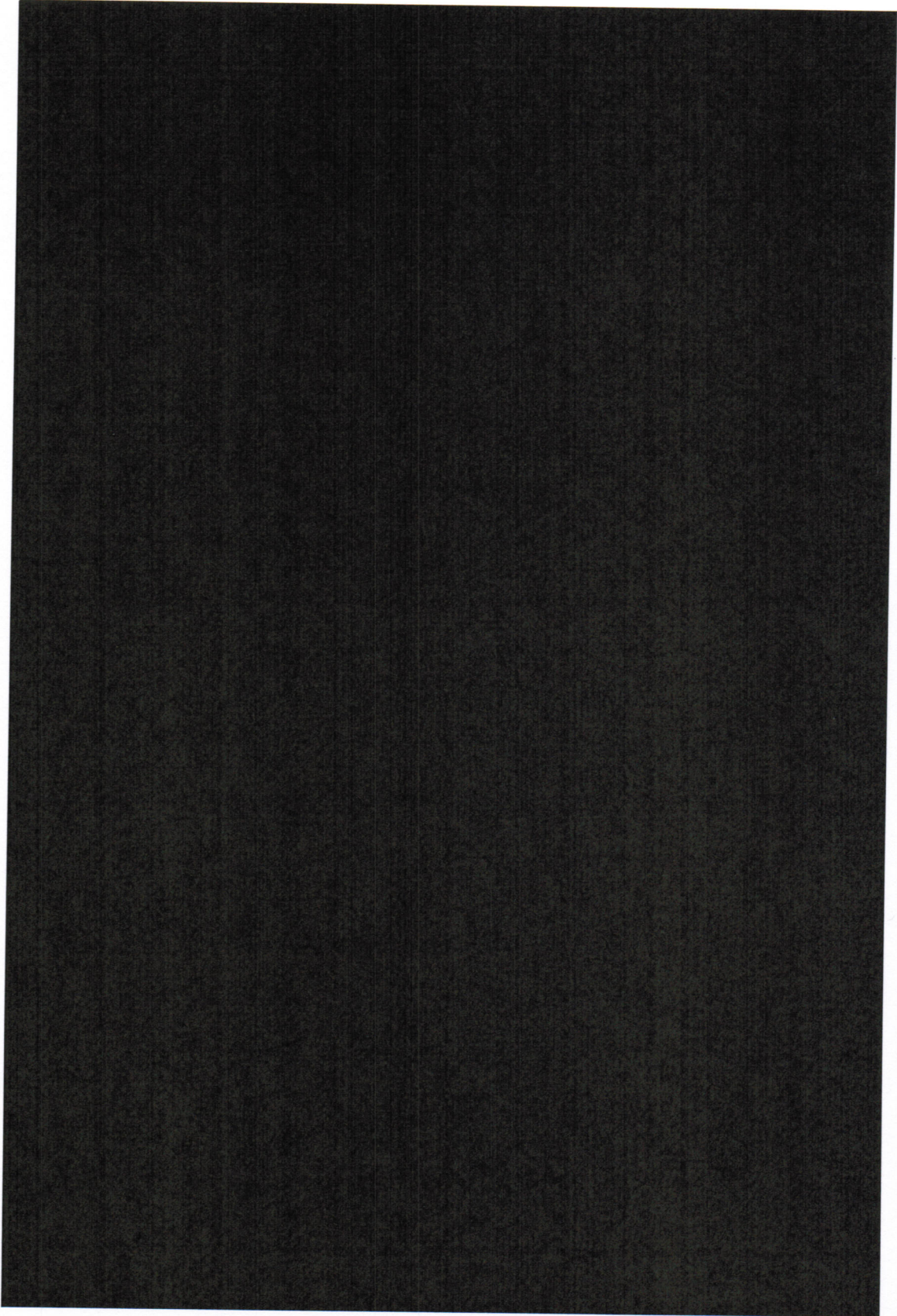
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Rate Groups with Insufficient Rates

- For RGs with insufficient rates, where NCC plus Admin exceeds the current Total Rate, the NCC is adjusted as follows:
 - PCC was set to close to 5% on each RG's overall rate
 - Means that NCC and Admin for RG are insufficient

2017 Rates	Proposed 2018 Rates
[REDACTED]	[REDACTED]

4 Insufficient Rate Groups

- 39 - Pulp, Newsprint And Specialty Papers
- 389 - Metal Closures And Containers
- 507 - Petroleum And Coal Products
- 512 - Resins, Paint, Ink And Adhesives

6 Insufficient Rate Groups

- 39 - Pulp, Newsprint And Specialty Papers
- 222 - Confectionery
- 358 - Foundries
- 389 - Metal Closures And Containers
- 507 - Petroleum And Coal Products
- 512 - Resins, Paint, Ink And Adhesives

2018 Rate Impact: Rate Groups Benefiting from 2017 Misstatement

- There were 34 Rate Groups whose 2017 rate based on an average rate of \$2.46 exceeded the initially published rate. All were charged the initially published rate.
- Some viewed this as “unfairly benefiting” these Rate Groups
- All see a decrease prior to the 2018 CMS (based on recommendation)
 - After CMS, some need to be increased; most are still eligible for a decrease
- The following 4 Rate Groups see an increase in their 2018 target rate (\$2.36)

Rate Group	Rate Group Description	2017 \$2.46 \$2.59 Starting Point	2017 \$2.43 "Final" Rate
689	Waste Materials Recycling	5.65	5.65
301	Clothing, Fibre And Yarn	2.19	2.19
921	Hotels, Motels And Camping	2.69	2.69
852	Homes For Residential Care	2.84	2.84

2018 Rate Impact: Rate Groups Benefiting from 2017 Misstatement

Rate Group	Rate Group Description	2017 "Final" Rate
905	Apartment And Condominium Services	2.70
830	Power And Telecommunication Lines	3.83
668	Computer, Electronic And Electrical Equipment, Sales	0.45
983	Communications Industries	0.32
838	Natural Gas Distribution	0.62
908	Other Real Estate Services	1.13
636	Other Sales	1.32
517	Soap And Toiletries	1.45
641	Clothing Stores	1.37
919	Restaurants And Catering	1.58
442	Railroad Rolling Stock	2.36
323	Metal Furniture	2.14
214	Fruit And Vegetable Products	2.44
681	Lumber And Builders Supply	2.72
533	Signs And Displays	2.75

Rate Group	Rate Group Description	2017 "Final" Rate
944	Personal Services	2.81
560	Warehousing	2.95
231	Soft Drinks	3.08
923	Janitorial Services	3.21
220	Other Bakery Products	3.54
607	Specialty Food Stores	3.21
975	Linen And Laundry Services	3.55
428	Motor Vehicle Fabric Accessories	4.00
608	Beer Stores	3.59
929	Supply Of Non-Clerical Labour	4.35
719	Inside Finishing	6.65
110	Gold Mines	7.01
764	Homebuilding	7.83
751	Siding And Outside Finishing	8.82
748	Form Work And Demolition	15.75