2018 Premium Rate Discussion
Executive Committee
May 2017

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2017 Funding Projections

- The 2017 Funding Projections reflect the 2016 Year End Financials and the 2017 'base case' assumptions
- Key changes in 2017 'base case' assumptions include:
  - Increase in NCC to $0.95 from 2016 Funding which used (2016: $0.85, 2017+: $0.93)
  - NCC provides for Chronic Mental Stress (CMS) legislation expected to be passed during 2017

[redacted]

  - Ultimate investment return rate is 4.75% versus 5.25% for 2016 Funding
  - Reduction in the discount rate to 4.50% level (2016 Funding used 4.75% level)
  - See next slide for comparison of key assumptions

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

[redacted]

[redacted]

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)

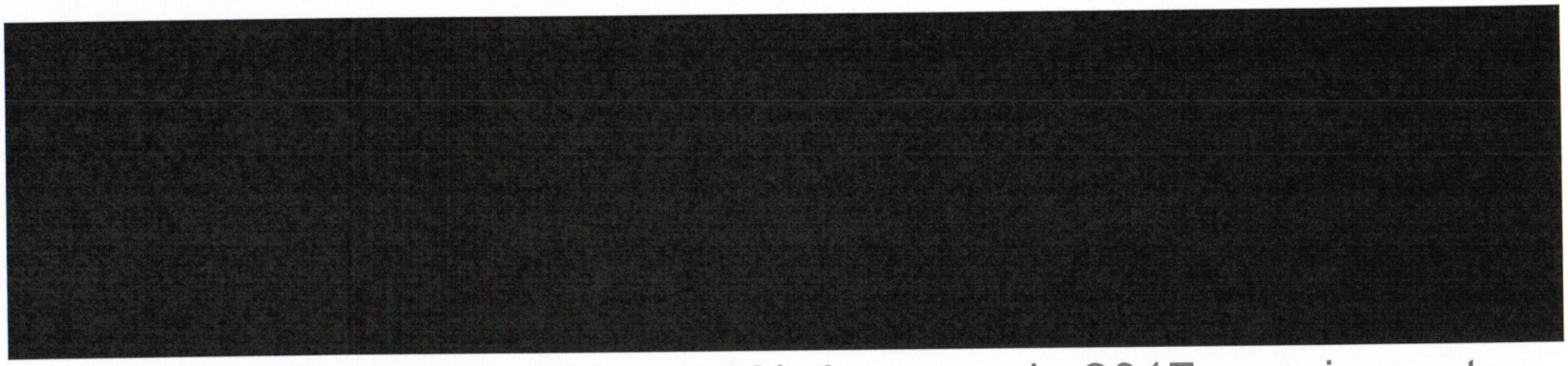


See next slide for summary results

- 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

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:



  - Provided greater than a 5.0% decrease in 2017 premium rates
- Preliminary 2018 premium rate is $2.36/$100 of insurable earnings (compares to $2.30 projected in 2016 Funding)

2017 Base Scenario Funding Projections

Basis	NCC/$100 IE	Indexation		Investment Returns		Discount Rate		Insurable Earnings Growth		
	Benefit	Full	Partial	2016-2017	2018+	2016-2017	2018+	2015-2017	2018+	Prudency Formula
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	2022	2027	
2016 Funding - Base (6.2% ,5% ,5% premium rate reductions for 2017-2019)	$2.57	$2.42	$2.30	$2.11	$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	$2.29	87.4%	92.7%	96.6%	99.8%	103.4%	110.2%	134.0%	2019

[redacted]

Adverse Scenarios

- Insurable Earnings growth, investment returns and new claims cost were tested

[redacted]

- Legislative funding targets are still achieved for Adverse scenario 1 even with premium reductions in 2017 and 2018
  - Funding margins fall a little short of ideal

[redacted]

2017 Funding Projections – Adverse Scenarios

Scenario	Industry Sector	Insurable Earnings	Sensitivity Applied (Years)	NCC	Investment Rate of Return	Premium Decrease
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	6.2%, 3%, 0% for (2017 to 2019)

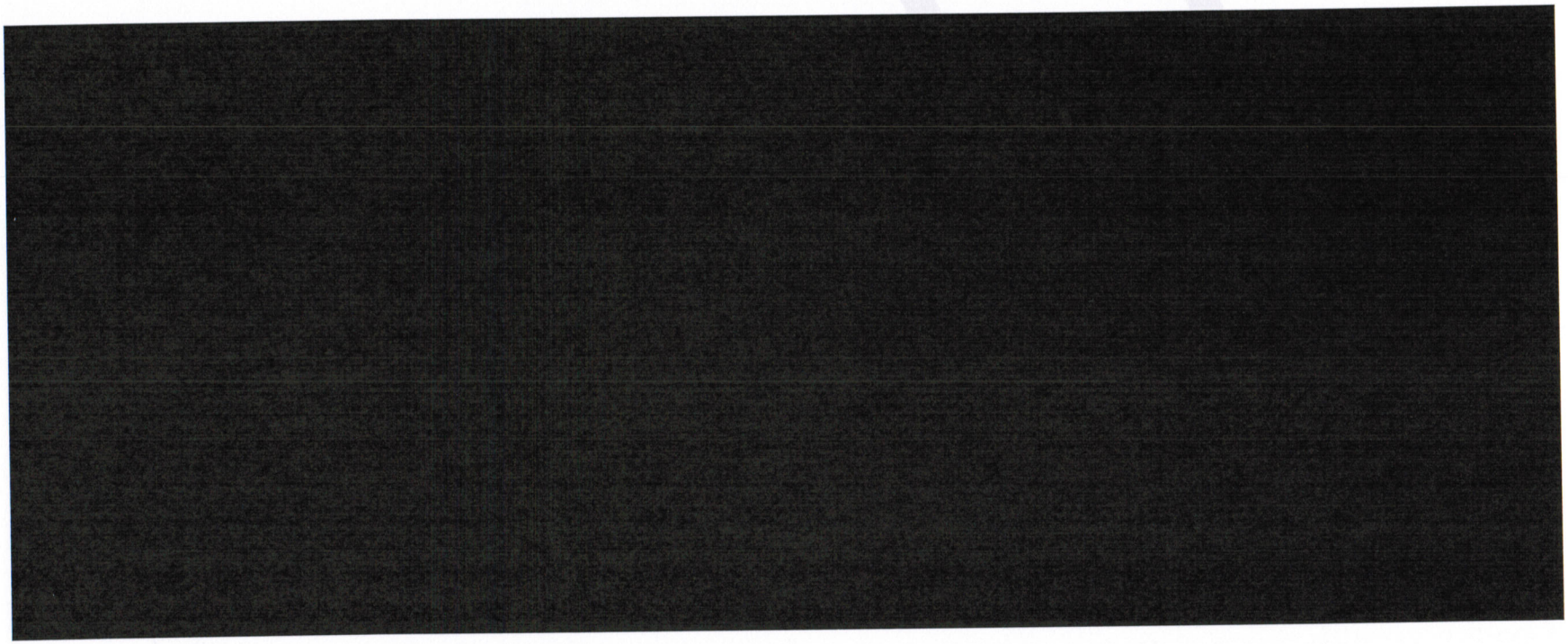
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Basis	Pemium Rate							Sufficiency Ratio							100% SR Achieved
	2016	2017	2018	2019	2020	2021	2022+	2016	2017	2018	2019	2020	2022	2027	
2017 Funding - Base (6.2%, 3%, 0% premium rate reduction for 2017-2019)	$2.59	$2.43	$2.36	$2.36	$2.28	$2.28	$2.29	87.4%	92.7%	96.6%	99.8%	103.4%	110.2%	134.0%	2019
2017 Funding - Adverse 1, (6.2%, 3%, 0% premium rate reduction for 2017-2019)	$2.59	$2.43	$2.36	$2.36	$2.28	$2.28	$2.28	87.4%	92.3%	93.8%	92.7%	92.3%	92.1%	113.6%	2024

[redacted]

2018 Preliminary Rate Recommendation

- Based on the preceding analysis, we recommend a 3% rate reduction in 2018, after allowing for the impact of Chronic Mental Stress



2018 Employer Rate Setting Considerations

- Our Sufficiency Ratio is progressing very well – 89% at 03/31/17; our two Economic Statements have signalled the potential for several years of rate decreases
  - In 2017 the Board approved a 6.2 percent reduction in the average premium rate for Schedule 1
  - Employers expect ongoing reductions
- In 2017, the MOL implemented legislation including Chronic Mental Stress under the Act, beginning January 2018

[redacted]

  - Impact expected to vary by industry
  - In this deck, CMS costs with margin have been allocated by industry based on the sum of TMS and PTSD claims counts over the last ten years, capped at a minimum of 2% of NCC and a maximum of 20%
- In 2017, except as required for PTSD, we chose not to implement rate group increases
  - We have maintained this approach in 2018 rate setting

[redacted]

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Discussion - Employer's Rate Setting Options

For determining the 2018 Rate Group rate that balances to the 2018 target rate, we have used the "Historical Approach" set out below:

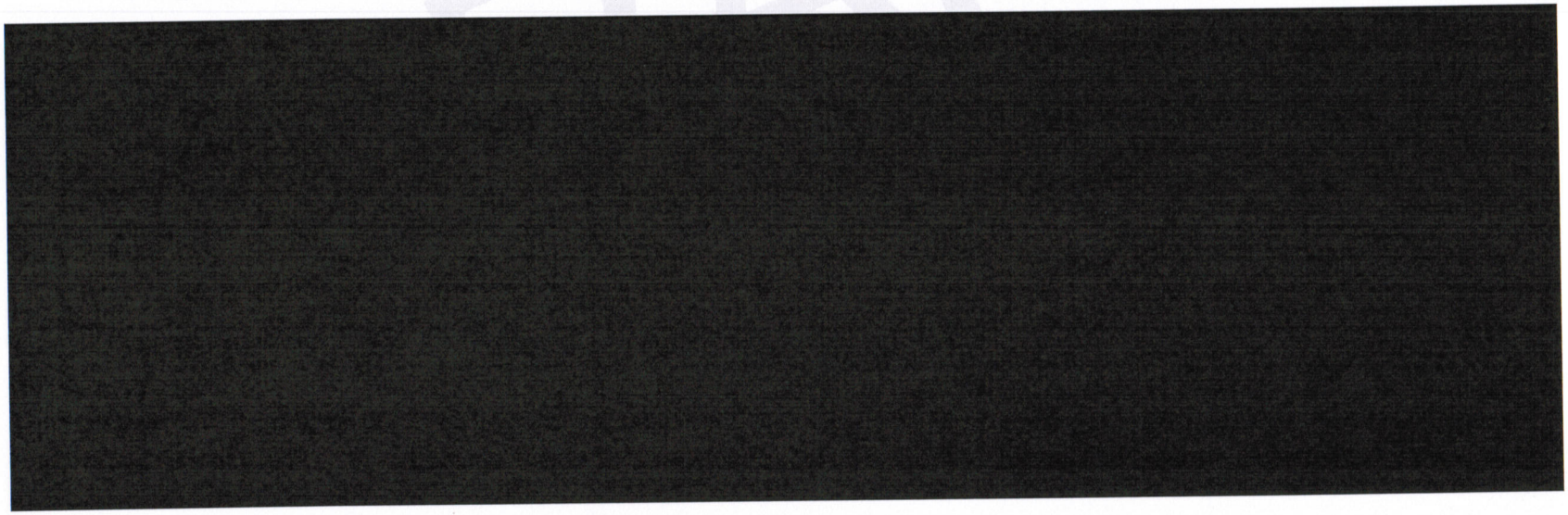
- **Historical Approach**
  - Set Rate Group (RG) Rates based on recent RG experience
    - Provide rate decreases as indicated by experience, with a maximum decrease
    - No increases, except as required by CMS

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Discussion - Employer's Rate Setting Options

Key Observations:

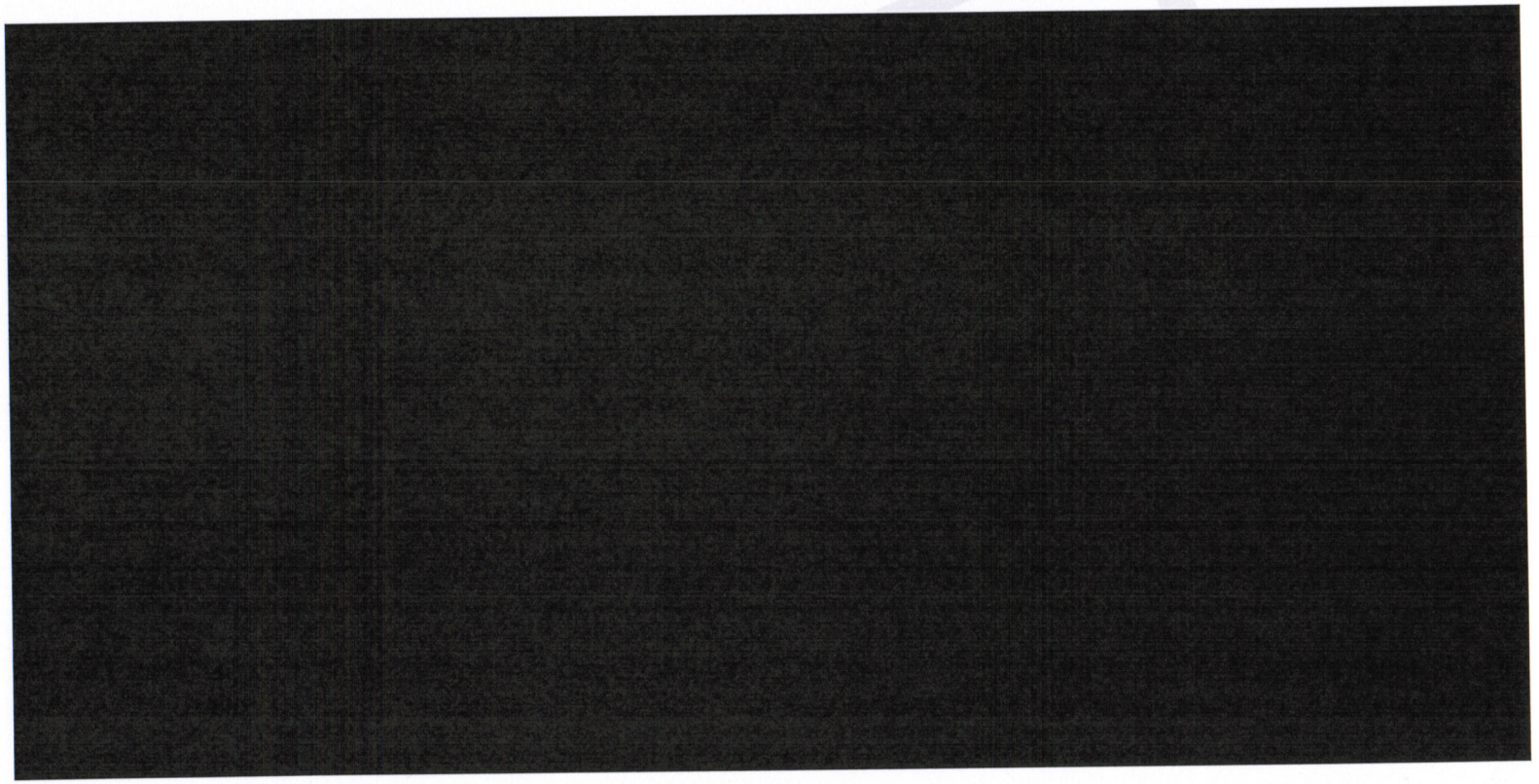
- Current Experience Rating programs ("ER") continue
- The Historical approach proposed maintains current rate-setting policy and is consistent with 2017 premium rates approach



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Proposed Scenarios for 2018 Target Rate Group Rates

A 3% reduction including CMS has been modeled [redacted]

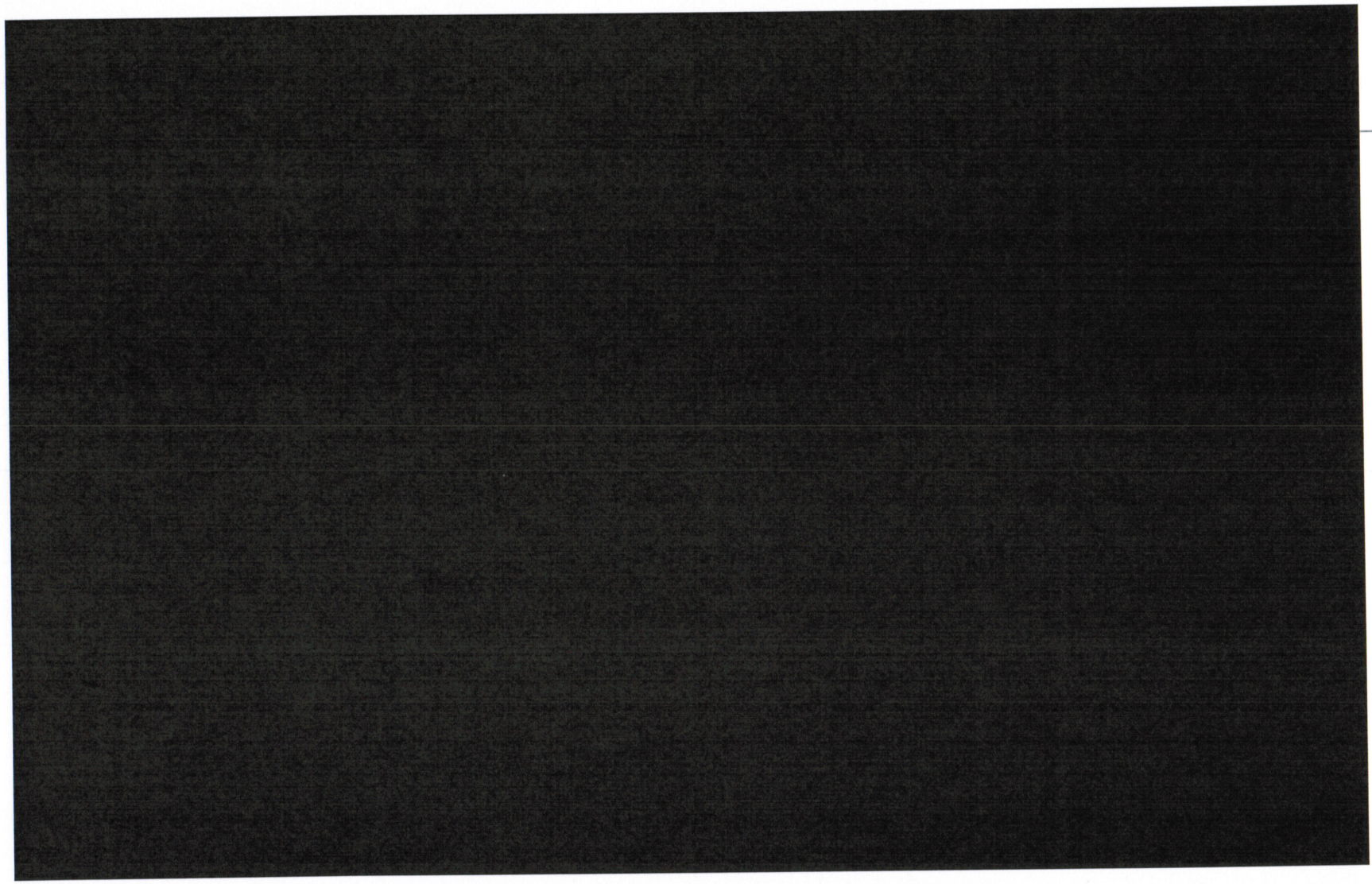


Summary of 2017 Published Rate Group Rates to [redacted] by Class

[redacted]

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

[redacted]



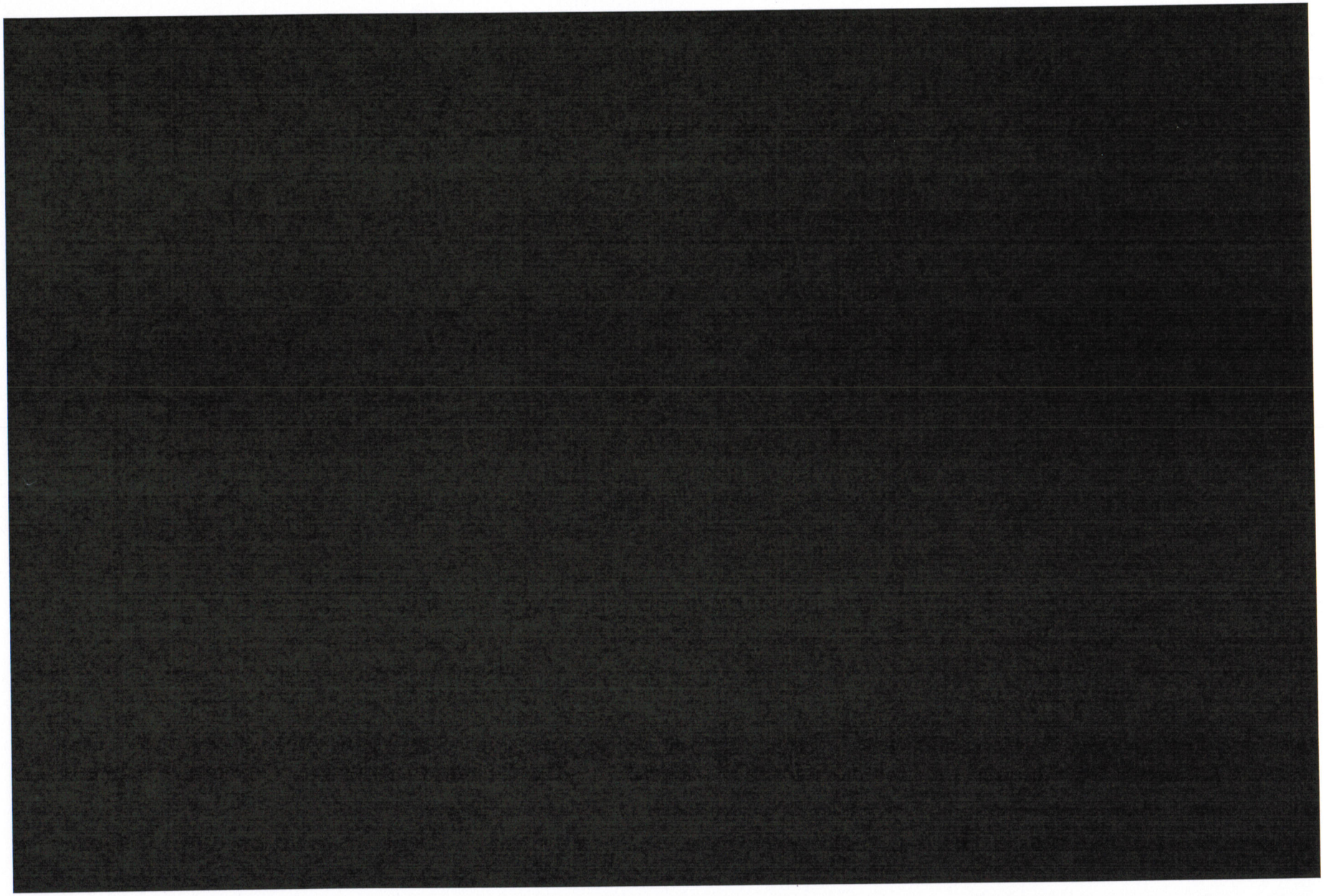
Rate Group and Firm Count by Proposed Scenario
2017 Published Rate Group Rates to 2018 Proposed Scenarios

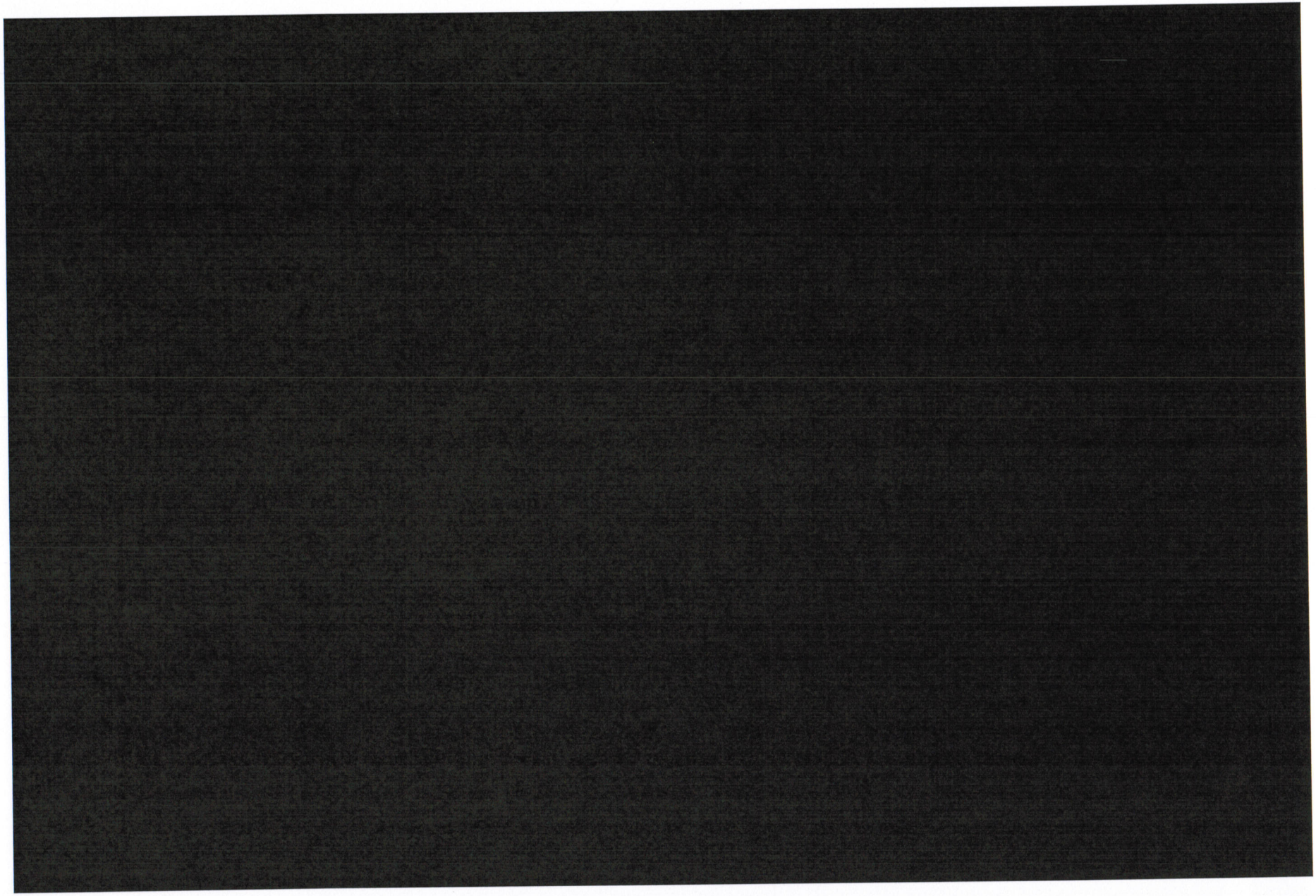
- Rate Group and Firm Count by change from 2017 published premium rates.
- [redacted]

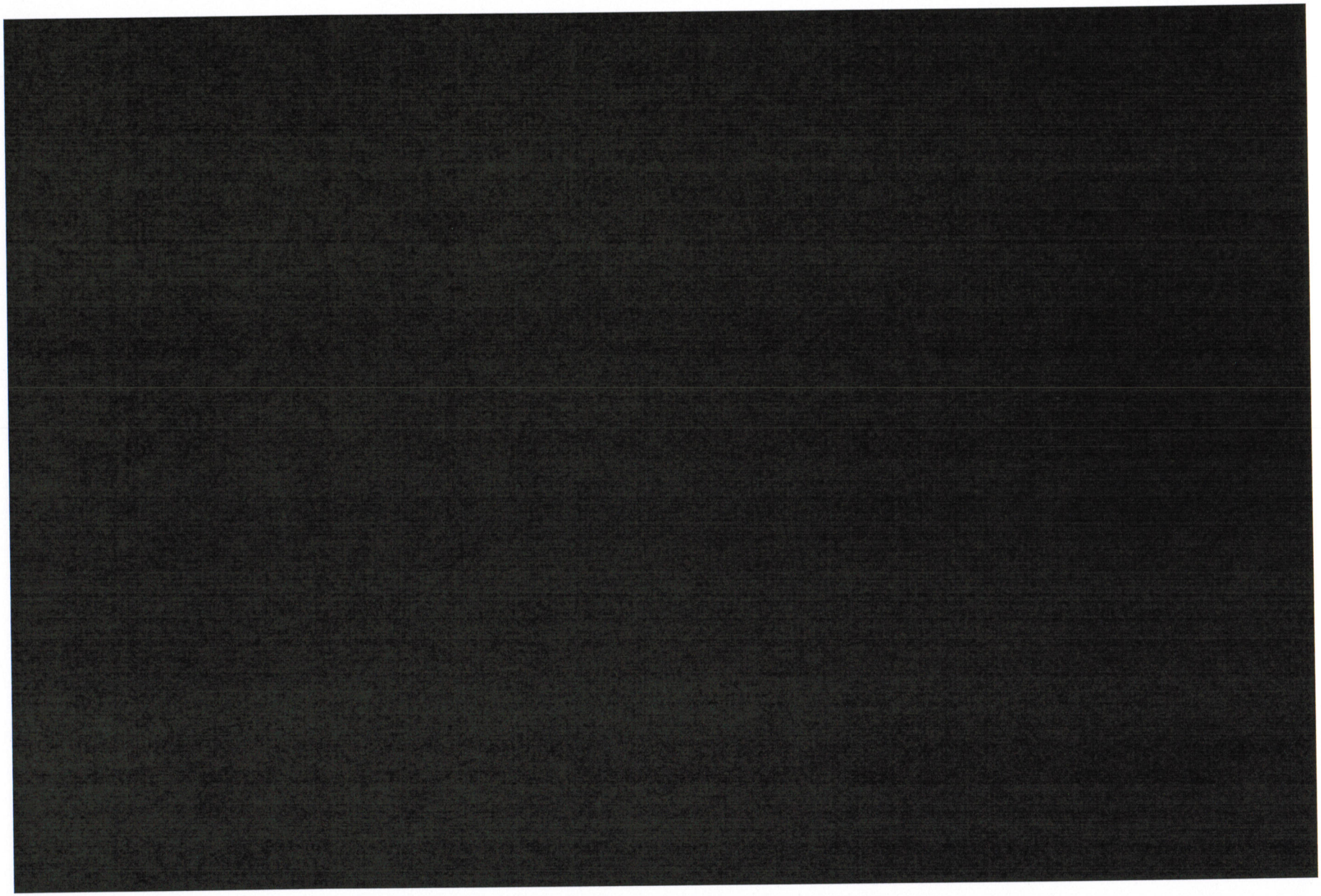
Scenario	2017 Published Rate	2018 Rate	Rate Group Count				Firm Count			
			Increase	Decrease	No Change	Total	Increase	Decrease	No Change	Total
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
2018 Proposed Target $2.36	$2.43	$2.36	82	73	0	155	88,648	227,687	0	316,335

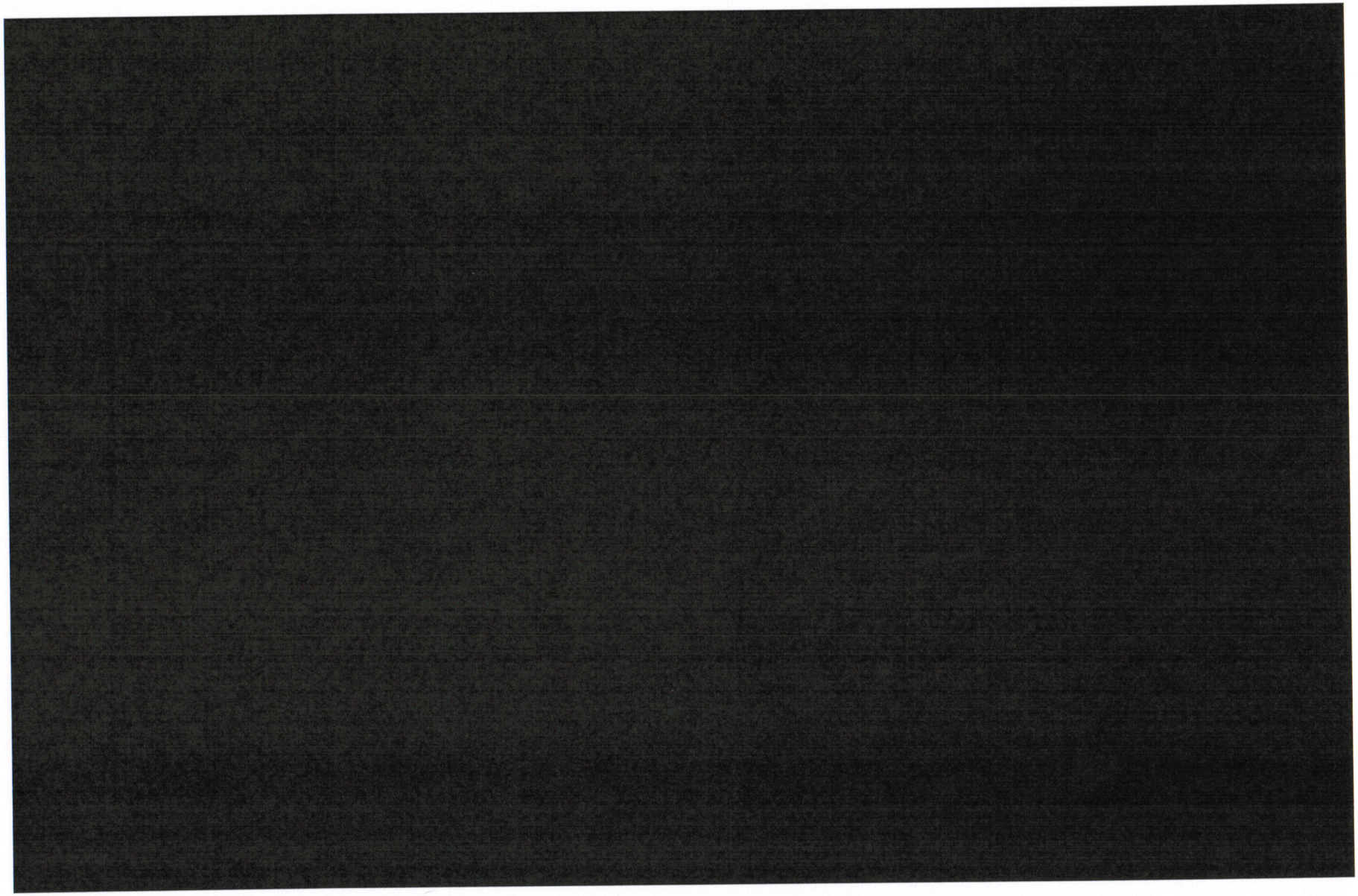
Note: The firm count is based on the number of firms in each rate group that were in the 2017 Rate Framework, multi-rated firms are counted more than once.

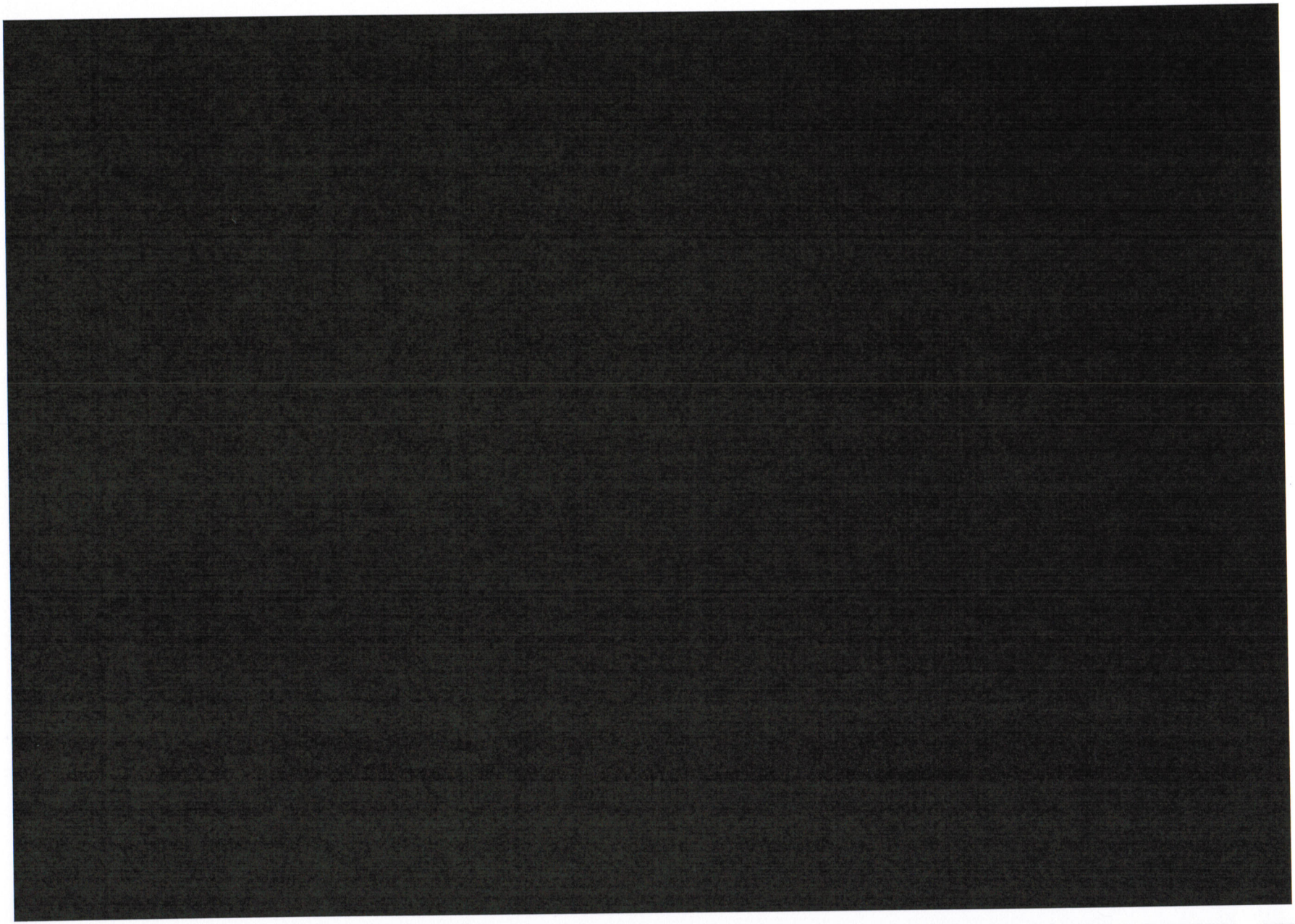
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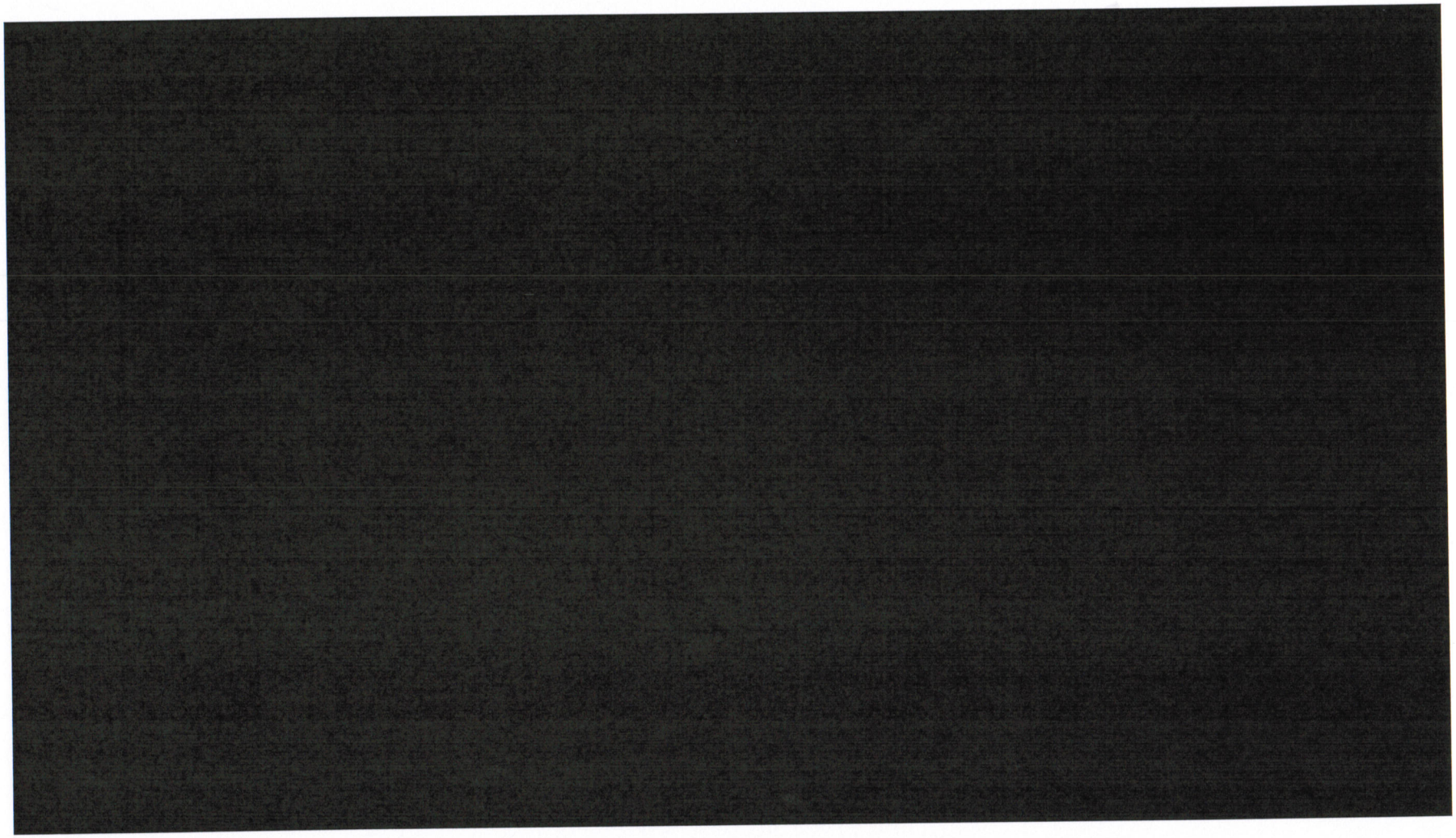


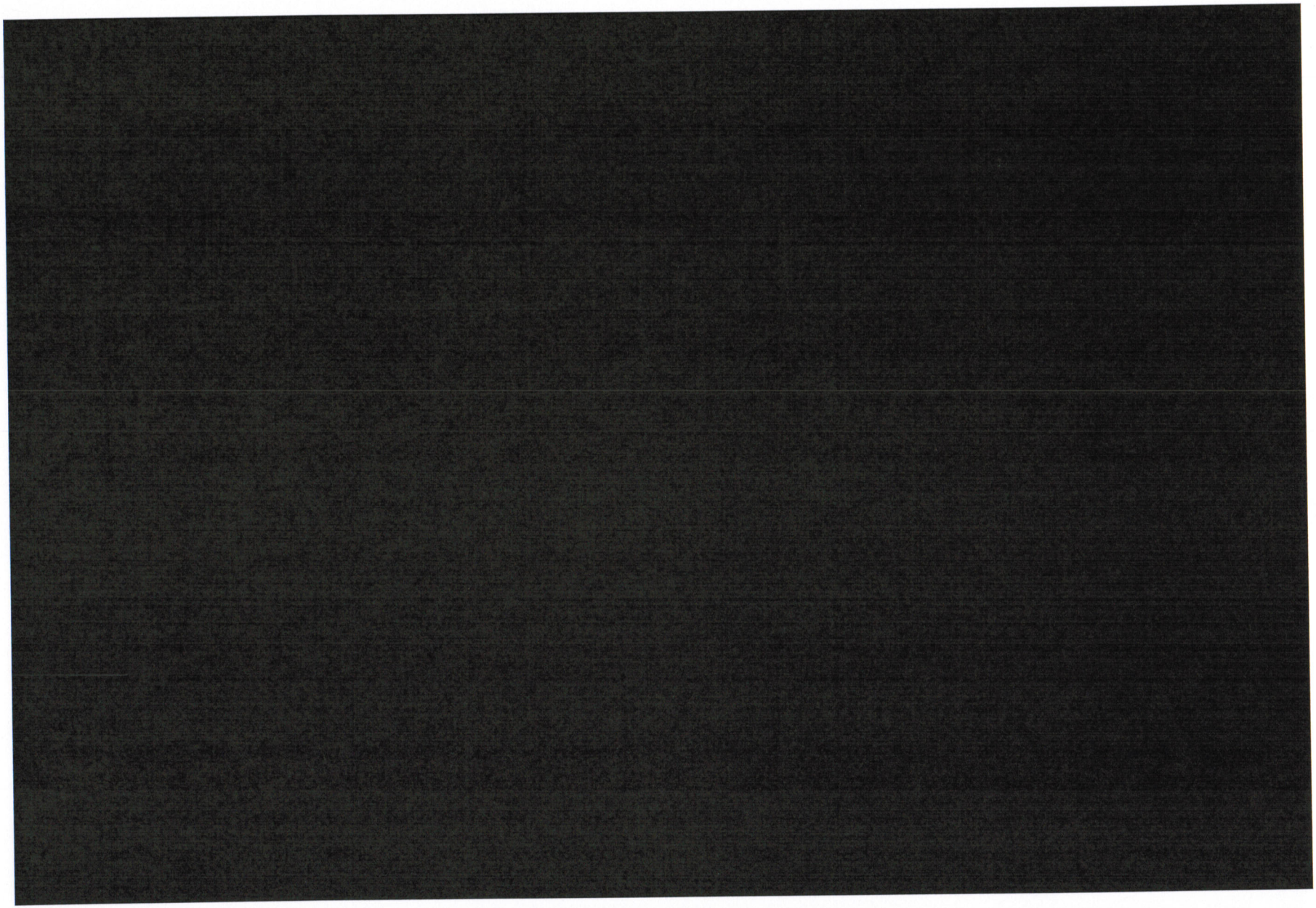


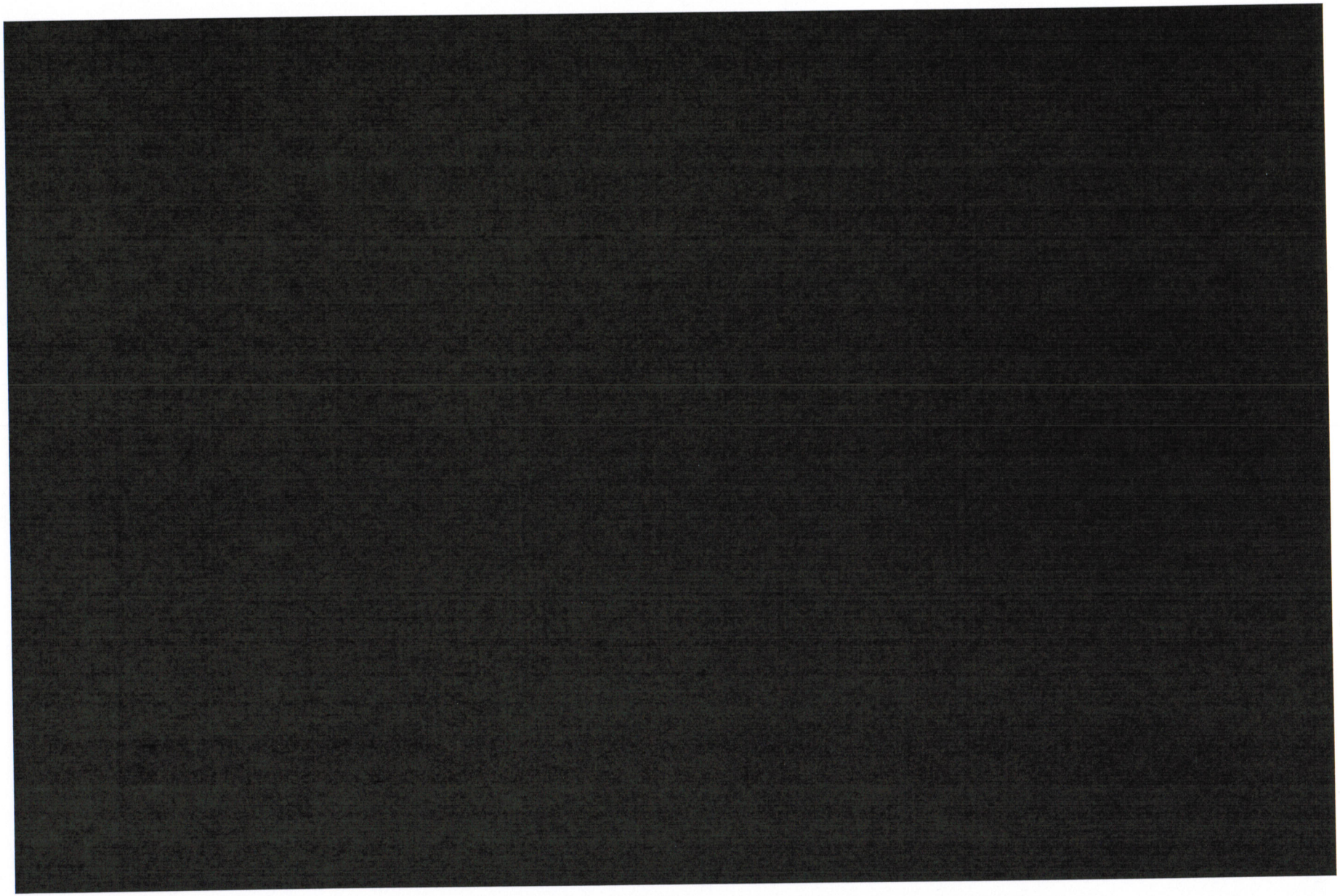




RG Rate Decrease Approach Discussion







Possible Next Steps

- May -- June: Prepare the 2018 Rate Group Rates
- June: BoD to present preliminary 2017 funding forecast and propose 2018 rate setting approach
- 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 (to be confirmed)

Communication & Issue Management Considerations

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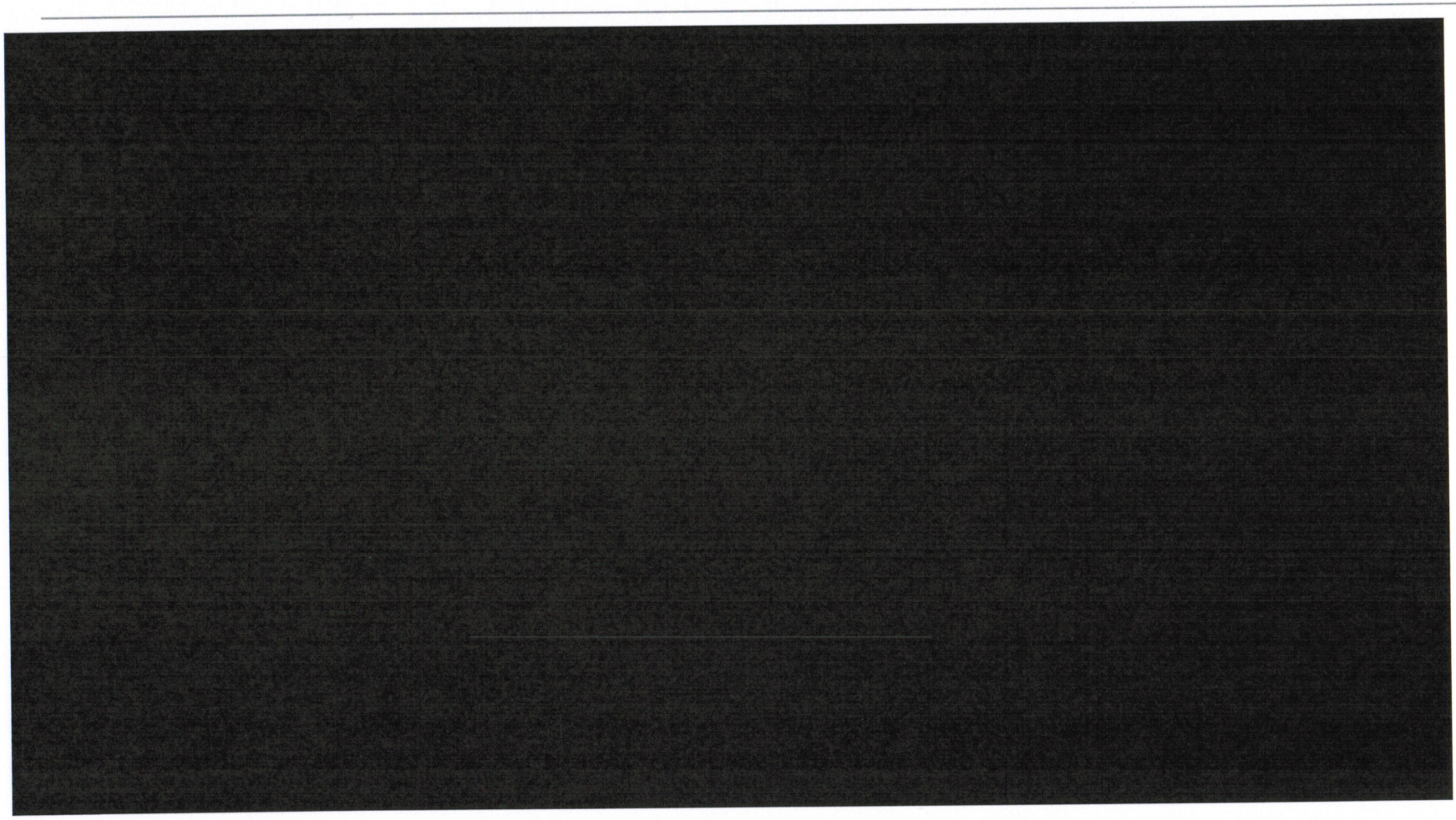
Communication and Issues Management Considerations

- A proposal to reduce premiums by *three per cent* in 2018, and *potentially freeze but not reduce* premium rates in 2019 and possible further reduction in 2020 of ten per cent would be consistent with the Economic Statements: *"…this may lead to reductions of between 10 and 15 per cent over a five year period, starting in 2017." [Financial Post OP-ED, February 2016]*



- A premium rate freeze in 2019 may be unwelcome by employers as they may have the pre-conceived notion that there will be a rate reduction in every year. (2018, 2019 and 2020)

Communication and Issues Management Considerations (cont'd)



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

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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]
4 Insufficient rate Rate Groups	**6 Insufficient rate Rate Groups**
39 - Pulp, Newsprint And Specialty Papers	39 - Pulp, Newsprint And Specialty Papers
389 - Metal Closures And Containers	222 - Confectionery
507 - Petroleum And Coal Products	358 - Foundries
512 - Resins, Paint, Ink And Adhesives	389 - Metal Closures And Containers
	507 - Petroleum And Coal Products
	512 - Resins, Paint, Ink And Adhesives

Rate Groups with 2018 rate increase: Of those with 2017 Target decrease from 2.59 to 2.46

- There are 34 Rate Groups whose 2017 rate based on an average rate of $2.46 exceeds the initially published rate.
- All see a decrease prior to the 2018 CMS charge
- The following 6 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	
921	Hotels, Motels And Camping	2.69		2.69	
830	Power And Telecommunication Lines	3.83		3.83	
852	Homes For Residential Care	2.84		2.84	
905	Apartment And Condominium Services	2.70		2.70	
301	Clothing, Fibre And Yarn	2.19		2.19	

Rate Groups with 2018 rate decrease:
Of those with 2017 Target decrease from 2.59 to 2.46

Rate Group	Rate Group Description	2017 $2.43 "Final" Rate	[redacted]	[redacted]
668	Computer, Electronic And Equipment, Sales	0.45	[redacted]	[redacted]
983	Communications Industries	0.32	[redacted]	[redacted]
838	Natural Gas Distribution	0.62	[redacted]	[redacted]
908	Other Real Estate Services	1.13	[redacted]	[redacted]
636	Other Sales	1.32	[redacted]	[redacted]
919	Restaurants And Catering	1.58	[redacted]	[redacted]
641	Clothing Stores	1.37	[redacted]	[redacted]
517	Soap And Toiletries	1.45	[redacted]	[redacted]
681	Lumber And Builders Supply	2.72	[redacted]	[redacted]
442	Railroad Rolling Stock	2.36	[redacted]	[redacted]
323	Metal Furniture	2.14	[redacted]	[redacted]
944	Personal Services	2.81	[redacted]	[redacted]
214	Fruit And Vegetable Products	2.44	[redacted]	[redacted]
560	Warehousing	2.95	[redacted]	[redacted]

Rate Group	Rate Group Description	2017 $2.43 "Final" Rate	[redacted]	[redacted]
923	Janitorial Services	3.21	[redacted]	[redacted]
533	Signs And Displays	2.75	[redacted]	[redacted]
231	Soft Drinks	3.08	[redacted]	[redacted]
607	Specialty Food Stores	3.21	[redacted]	[redacted]
975	Linen And Laundry Services	3.55	[redacted]	[redacted]
220	Other Bakery Products	3.54	[redacted]	[redacted]
929	Supply Of Non-Clerical Labour	4.35	[redacted]	[redacted]
608	Beer Stores	3.59	[redacted]	[redacted]
428	Motor Vehicle Fabric Accessories	4.00	[redacted]	[redacted]
110	Gold Mines	7.01	[redacted]	[redacted]
719	Inside Finishing	6.65	[redacted]	[redacted]
764	Homebuilding	7.83	[redacted]	[redacted]
751	Siding And Outside Finishing	8.82	[redacted]	[redacted]
748	Form Work And Demolition	15.75	[redacted]	[redacted]