Special Meeting of the Chair's Advisory Committees: Employer Representatives

2017 Preliminary Premium Rates

August 10, 2016

Agenda

1. Context
2. 2017 Rate Recommendation – Summary
3. 2017 Premium Rates Recommendation
4. Rate Setting Considerations
5. 2016 Funding Model and Forecast
6. Next Steps
7. Appendices

1. Context

- Each year, the WSIB recommends annual premium rates to the Board of Directors
- The following is a summary of premium rate changes, from 2010 to 2016:

  2016: No change
  2015: No change, except for increase for one rate group (Local Government Services)
  2014: No change
  2013: 2.50% average increase
  2012: 2.00% average increase
  2011: 2.00% average increase
  2010: 1.77% average increase

- In the 2015 Economic Statement, the WSIB suggested that some premium rate relief might be possible, as early as 2017
- Given results since then, and our updated economic trajectory, the WSIB has recommended to the Board of Directors a reduction in premium rates for 2017 for the first time since 2001

2. 2017 Rate Recommendation – Summary

- The average premium rate is expected to be reduced by 5%, from $2.59 in 2016, to $2.46 in 2017, with the possibility of continued rate reductions well into the future
- 5% is an average figure – employers will see reductions of between 0% and 14%, depending on their claims experience
- For 2017 premium rates, rate groups that have shown positive relative performance, in terms of the cost of new claims, will see a decrease of up to 14% in their rate, compared to 2016 – most will experience no rate change, or a favourable one
- Given our stronger financial position and our commitment to fair rates, we can now begin to offer some premium rate relief to employers
  - The WSIB has made good progress toward meeting our Funding Targets and toward eliminating the Unfunded Liability (UFL)
  - We are currently five to six years ahead of schedule to pay down the UFL
  - Premium rates have included approximately 40% provision for UFL contribution for many years
  - Premium rates must be a fair reflection of costs

3. 2017 Premium Rates Recommendation

In keeping with the WSIB's commitment to reducing premium rates, the WSIB will be recommending to the Board of Directors, in August, the following for 2017 rates:

- 5% average rate reduction for Schedule 1 employers
- Maintain rate group approach to rate setting (as opposed to at an individual employer level)
- Up to a 14% rate reduction forecasted for rate groups with good performance, down to a 0% reduction for those with the poorest performance
- Only two rate groups will see a rate increase (as PTSD costs are accounted for in Rate Group 845 – Local Government Services and Rate Group 590 – Ambulance Services)

With the above approach, 2017 preliminary Schedule 1 Rate components are as follows:

Premium Rate Component	2016	2017 (Proposed)	% change
New Claims Cost (NCC)	1.01	0.93	-7.9%
Overhead Expenses (WSIB Administrative & Legislative Obligations)	0.48	0.48	0.0%
Past Claims Cost	1.10	1.05	-4.5%
Total	**2.59**	**2.46**	**-5.0%**

Expected Gross Premium Revenues in 2017 (in $'M) based on the proposed 2017 rate would be

New Claims Cost (NCC)	$1,792
Overhead Expenses (WSIB Administrative & Legislative Obligations)	$925
Past Claims Cost	$2,024
Total	**$4,741**

Note: Premium Rate shown before adjustment for Merit Adjusted Premium program

3. 2017 Premium Rates Recommendation (Cont'd)

Most rate groups (and individual employers) are set to benefit from the 2017 premium rates setting recommendation, yet there are some exceptions – either because rates are remaining unchanged or because of adjustments to premiums consequential to new legislation and impacting their rate group costs

Impact to premium rates as a result of recent legislation:

- In 2014, the rate for Rate Group 845 (Local Government Services) was increased from $2.24 to $2.88, to take account of presumptive cancer legislation
- Presumptive PTSD Legislation for First Responders was introduced on April 6, 2016
  - Costing was done to estimate the annual cost, and the two-year retroactive cost based on the legislation
  - For pricing purposes, it is recommended that we assume a lower impact than will be assumed for liability purposes

Rate Groups affected:

Rate Group 845: Local Government Services – includes police, firefighters, etc. (~88% of First Responders population)

Rate Group 590: Ambulance Services – includes paramedics (~12% of First Responders population)

Rate Group	2016 Rate	2017 Proposed Rate * (without PTSD)	PTSD Rate Impact	2017 Proposed Rate (with PTSD)	% Increase
845 in Class H	$2.88	$2.88	$0.17	$3.05	5.9%
590 in Class E	$6.46	$6.46	$0.30	$6.76	4.6%

* The proposed rate reflects the latest experience and reflects that these rate groups would not be entitled to a rate reduction

4. Rate Setting Considerations – Rate Classes

The WSIB will be recommending to the Board of Directors a premium reduction, under which nearly all Class rates will be reduced in 2017. While the average rate reduction for each Class differs, overall, Schedule 1 employers' average premiums will be reduced by 5%, from $2.59 to $2.46.

Summary of Class Rates:

Class	Description	2016 Published Rate ($2.59)	RG Rate No Increase (except PTSD) and Decrease (up to 14%) ($2.46)	% Change
A	Forest Products	$5.50	$5.51	0.2%
B	Mining and Related Industries	$6.85	$6.33	-7.6%
C	Other Primary Industries	$4.19	$4.15	-1.0%
D	Manufacturing	$2.62	$2.54	-3.1%
E	Transportation and Storage	$5.09	$5.05	-0.8%
F	Retail and Wholesale Trades	$1.82	$1.71	-6.0%
G	Construction	$6.43	$5.89	-8.4%
H	Government and Related Services	$1.42	$1.40	-1.4%
I	Other Services	$1.34	$1.21	-9.7%
Schedule 1		**$2.59**	**$2.46**	**-5.0%**

No rate group will incur a premium rate increase, however the weighted mix of an industry class may cause the class rate to increase.

4. Rate Setting Considerations (Cont'd) – Rate Decrease Approach

Up to a 14% rate premium reduction has been recommended for some of the best performing rate groups. This is the first time a rate reduction has been recommended in well over a decade. All but two rate groups will see no increase, or a rate reduction. Nearly 30% of all firms will see a decrease of over 10% to their premium rate.

Summary of Rate Group Changes, By Class:

Class	Class Description	Profile		RG Rate No Increase and Decrease Kept at 14% Except PTSD									
				Up to 5% Decrease		5-10% Decrease		Over 10% Decrease		Unchanged		Increase Due to PTSD *	
		# of RGs	Total # of Firms	# of RGs	# of firms	# of RGs	# of firms	# of RGs	# of firms	# of RGs	# of firms	# of RGs	# of firms
A	Forest Products	5	1,196	0	0	1	48	0	0	4	1,148	N/A	N/A
B	Mining and Related Industries	4	835	1	260	1	437	1	81	1	57		
C	Other Primary Industries	6	15,733	0	0	1	293	0	0	5	15,440		
D	Manufacturing	73	23,335	13	2,706	5	1,880	6	1,612	49	17,137		
E	Transportation and Storage	8	15,226	0	0	0	0	1	607	6	14,589	1	30
F	Retail and Wholesale Trades	16	52,683	2	2,296	6	28,567	3	3,827	5	17,993	N/A	N/A
G	Construction	13	101,362	2	12,704	3	10,500	4	54,058	4	24,100		
H	Government and Related Services	14	10,051	3	2,729	1	1,498	3	888	6	4,282	1	654
I	Other Services	16	69,076	3	3,898	2	31,784	8	24,661	3	8,733	N/A	N/A
Schedule 1		**155**	**289,497**	**24**	**24,593**	**20**	**75,007**	**26**	**85,734**	**83**	**103,479**	**2**	**684**

* RG 590 is in Class E and RG 845 is in class H. The increase is due to PTSD

5. 2016 Funding Model and Forecast

At the Actuarial Advisory Committee (May 2016) and at the June Board of Directors meeting, several funding scenarios were considered, to determine what affect a 5% rate reduction in each of the next three years would have on the WSIB's funding projection in best case scenarios, and in scenarios involving simultaneous economic changes

- Running through these scenarios enables us to consider the rate setting strategy before the Rate Framework is implemented in 2019, at the earliest
- Applying an updated set of financial assumptions (see next page) against our 2016 funding projections and against the adverse scenarios prepares us to assess our potential risk exposure

Funding Scenarios

1. Best Case (with no rate reduction) – **'Base'**
2. Rate Reduction from 2017 to 2019, at 5% rate reduction per year – **'Base 1'**
3. Adverse scenarios, including
    1. Those affecting the sufficiency plan – **'Adverse 1'**
    2. Those affecting the economy – **'Adverse 2'**

Impacts Were Considered Across:

- Schedule 1 average rate
- Employer rates
- Smooth transition to the new Rate Framework

5. 2016 Funding Model and Forecast (Cont'd) – Comparison of Key Assumptions

Key financial assumptions are accounted for in the setting of premium rates, and these are regularly tested, and revised when necessary. The information is regarded as an essential input, ensuring that we are able to offer the fairest rates to employers, while protecting the system's long term sustainability.

Key Assumptions	2015 Funding Base Assumptions (for 2016 Rate Setting)	2015 Economic Statement Assumptions	2016 Funding Base Assumptions (for 2017 Rate Setting)
Long Term Target Investment Rate	6.00%	5.25%	5.25%
Investment Returns	2015-2017: 3.5% 2018+: 5.5% Level equivalent rate of about 5.1%	2016-2019: 3.5% 2020+: 5.0% Level equivalent rate of about 4.5%	2016-2019: 3.5% 2020+: 5.25% Level equivalent rate of about 4.6%
Discount Rate	2015-2017: 4.75% 2018+: 5.25% Level equivalent rate of about 5.15%	4.75%	4.75%
Insurable Earnings Growth	2015: 1.7% 2016-2017: 3.0% 2018+: 2.5%	2016-2017: 2.5% 2018+: 2.0%	2016-2017: 2.5% 2018+: 2.0%
New Claims Cost	$1.01	$0.96	$0.85 (2016), $0.93 (2017+)
PTSD Retro Provision	Not Recognized	Not Recognized	$35M as at 2016

Note: Level Equivalent Rate for Investment Returns determined by solving for the equivalent rate to achieve the same Sufficiency Ratio at 2027
2016 Funding New Claims Cost (for 2017+) was determined based on the current 2015 Injury Year including 20% loading plus an additional $0.01 each for partial indexation legislation, firefighter presumptive cancer legislation and proposed legislation for post traumatic stress disorder.

5. 2016 Funding Model and Forecast (Cont'd) – Key Changes to 2016 'Base Case' Assumptions

- The 2016 Funding Projections reflect the 2015 Year End Financials and the 2016 'Base Case' assumptions
- Reduction in New Claims Cost from $1.01 (used for 2015 Funding), to $0.85 (2016), and $0.93 (2017+)
- PTSD Retro Provision of $35M included
- Ultimate investment return rate is 5.25%, versus 5.50% for 2015 Funding
- Inclusion of legislative change relating to Indexation
- Insurable Earnings Growth Rate reduced by 0.5% at all durations (2016 Funding: 2.5% to 2017, 2.0% thereafter; 2015 Funding: 3.0% to 2017, 2.5% thereafter)
- Reduction in the discount rate to 4.75% (2015 Funding: 4.75% to 2017, 5.25% thereafter)

5. 2016 Funding Model and Forecast (Cont'd)

'Base 1' outlines the effect a 5% yearly reduction in premium rates (2017-2019) would have on our Sufficiency Ratio, as long as our key assumptions hold. In this scenario, the WSIB is able to achieve its Funding Targets *and* deliver reduced premium rates to employers.

Key assumptions in 'Base' scenario:

Basis	New Claims Cost/$100 Insurable Earnings	Indexation		Investment Returns		Discount Rate		Insurable Earnings Growth		PTSD
	Benefit	Full	Partial	2015-2017	2018+	2015-2017	2018+	2015-2017	2018+	Retro Provision
2015 Funding – Base	$1.01	2.0%	0.5%	3.5%	5.5%	4.75%	5.25%	1.7% (2015), 3.0% (2016-2017)	2.5%	$0M
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%	$35M

'Base' and 'Base 1' – effect on premium rate, and effect on Sufficiency Ratio:

Basis	Premium Rate						Sufficiency Ratio						
	2015	2016	2017	2018	2019	2020+	2015	2016	2017	2018	2019	2022	2027
2015 Funding – Base	$2.53	$2.53	$2.53	$2.53	$2.53	$2.53	76.0%	81.3%	86.5%	90.0%	94.1%	109.2%	138.8%
2016 Funding – Base	$2.57	$2.57	$2.58	$2.58	$2.49	$2.50	77.9%	84.4%	90.2%	95.4%	99.7%	114.1%	146.0%
2016 Funding – Base 1 (5%, 5%, 5% premium rate reductions for 2017-2019)	$2.57	$2.57	$2.45	$2.33	$2.14	$2.14	77.9%	84.4%	89.6%	93.4%	95.8%	104.2%	125.2%

Notes: Average Premium reflects changing insurable earnings mix by industry and is after adjustment for Merit Adjusted Premium (MAP) program.
2016 Funding assumes Rate Framework implementation in 2019. Gross premium is shown for 2015 to 2018 with the net premium about $0.09 less based on an experience rating percentage of 3.5%.
At 2019, the Rate Framework implementation is assumed to be revenue neutral (i.e. assuming an experience rating percentage of 3.5%) as shown with the reduced premium starting in 2019.
The above scenarios demonstrate that premium rate reductions need not jeopardize achievement of the Funding Targets.

5. 2016 Funding Model and Forecast (Cont'd) – Funding Forecast

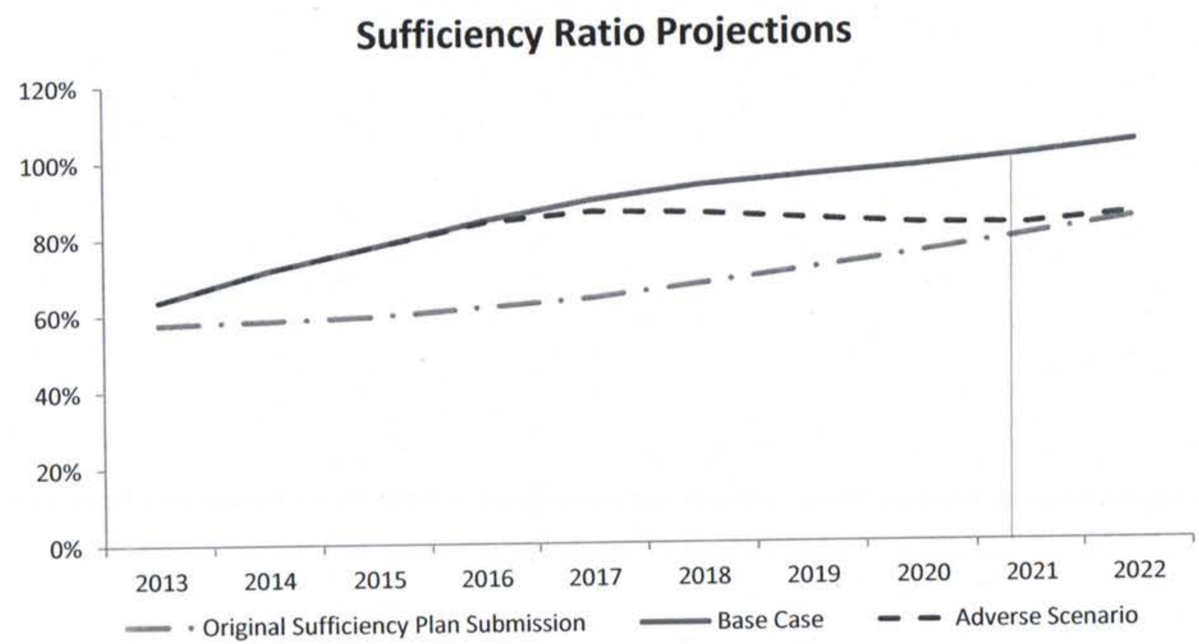
Adverse scenario analysis allows for better rate planning and risk preparedness. In the most extreme scenario tested, ongoing yearly premium rate reductions of 5% would contribute toward a significant decrease in sufficiency. A future adjustment to premium rates could be necessary, in the event of major changes in the external environment that would require revisions to the financial assumptions on which the premium rates are based.

Scenario	Industry Sector	Insurable Earnings	Sensitivity Applied (Years)	New Claims Cost	Other	Premium Decrease
Adverse 1 (Sufficiency Plan Adverse)	All	1.5% (2016-2018), normal growth thereafter	3	No change	Investment loss of 1% in 2016 followed by a 15% loss in 2017	5%, 5%, 5% (2017-2019)
Adverse 2 (Economic Disaster)	All	-15% (2016), 0% (2017-2020), normal growth thereafter	5	+15% (2017) grading to normal in 5 years (2022)	Investment loss of 1% in 2016 followed by a 15% loss in 2017	5%, 5%, 5% (2017-2019)

Basis	Premium Rate						Sufficiency Ratio						
	2015	2016	2017	2018	2019	2020+	2015	2016	2017	2018	2019	2022	2027
2016 Funding – Base 1 5%, 5%, 5% premium rate reductions (2017-2019)	$2.57	$2.57	$2.45	$2.33	$2.14	$2.14	77.9%	84.4%	89.6%	93.4%	95.8%	104.2%	125.2%
2016 Funding – Adverse 1 (Sufficiency Plan Adverse) 5%, 5%, 5% premium rate reductions (2017-2019)	$2.57	$2.57	$2.44	$2.32	$2.13	$2.14	77.9%	83.9%	86.7%	86.2%	84.7%	85.8%	103.8%
2016 Funding – Adverse 2 (Economic Disaster) 5%, 5%, 5% premium rate reductions (2017-2019)	$2.57	$2.56	$2.43	$2.31	$2.12	$2.12	77.9%	82.4%	83.1%	80.8%	77.7%	73.9%	83.9%

Notes: Average Premium reflects changing insurable earnings mix by industry and is after adjustment for Merit Adjusted Premium (MAP) program .
2016 Funding assumes Rate Framework implementation in 2019. Gross premium is shown for 2015 to 2018 with the net premium about $0.09 less based on an experience rating percentage of 3.5%.
At 2019, the Rate Framework implementation is assumed to be revenue neutral (i.e. assuming an experience rating percentage of 3.5%) as shown with the reduced premium starting in 2019.

5. 2016 Funding Model and Forecast (Cont'd) – Sufficiency Ratio Trend



Note: Improvement in projected sufficiency ratios compared to the original submission

6. Next Steps

1. Rate approval

- Expected at Board of Directors Meeting – August 18, 2016

2. Communications

- Public Notice of 2017 Rates (Press release and web message issued) and Economic Statement to be released as part of Annual General Meeting, planned for September 14, 2016
- Industry-specific technical sessions – TBD (September/October 2016)
- Rate group-specific information sheets

7. Appendices

I – 2017 Maximum Insurable Earnings

II – New Claims Cost Trend for the New Injury Year

III – Example of Rate Group Specific Information Sheet

I. 2017 Maximum Insurable Earnings (MIE)

- The *Workplace Safety and Insurance Act* (*WSIA*) stipulates the maximum level of insurable earnings for both premium rate setting and claim payment purposes
- Section 54 of the *WSIA* stipulates that the MIE is limited to 175% of the average industrial wage for Ontario based upon the most recent published material available on July 1 by Statistics Canada.
- The formula in determining the MIE Ceiling is:
  $ ([average weekly industrial earnings] x 365) / 7 x 1.75
- In accordance with the *WSIA*, we have referred to the Statistics Canada publication released on June 30, 2016, which defines the average weekly industrial earnings in Ontario to be $970.25.
- This results in MIE of $88,500 for 2017, an increase of 0.6% from 2016

II. New Claims Cost Trend for the New Injury Year

Per $100 of Insurable Earnings New Claims Cost	Published	Recalculated New Claims Cost			
Injury Year	At Premium Rate Setting	2012	2013	2014	2015
2008	1.05	1.20	1.17	1.10	1.12
2009	1.01	0.93	0.89	0.88	0.82
2010	1.13	0.78	0.74	0.71	0.68
2011	1.01	0.76	0.68	0.64	0.61
2012	1.22	0.89	0.73	0.65	0.61
2013	1.22	n/a	0.84	0.71	0.63
2014	1.10	n/a	n/a	0.78	0.67
2015	1.11	n/a	n/a	n/a	0.74

- New Claims Cost for the last few injury years has been very favourable
- The New Claims Cost shown above excludes all administrative expenses

III. Example of Rate Group Specific Information Sheet

Rate Group 764: Homebuilding
Premium Rate: $7.83 per $100 of insurable earnings

Schedule 1

Rate group premium rates have not changed in line with experience for over four years. Based on the 2016 Funding Projection, the BoD has approved the 2017 Premium Rates as follows:

- Overall Schedule 1 average rate reduction of 5%
- Rate Groups with good performance to receive a rate reduction up to 14%
- Other Rate Groups will have no rate change from 2016
- Additional PTSD cost to be included in RG 845 Local Government Services and RG 590 Ambulance Services

Total Premium Rate of your Rate Group

First, "target" premium rates were set for each rate group according to the traditional approach of reflecting their recent claims experience, a share of administration expenses and a share of the charge to reduce the unfunded liability. Then, the rules from the BoD decision were applied resulting in either a rate reduction or the rate being held at its 2016 level. Where the target rate has been limited, the unfunded liability charge is adjusted accordingly.

Your Rate Group's premium rate is comprised of three components shown in the table below:

A. New Claims Cost – The expected future cost of your rate group's new claims for the year.
B. Administration Expenses – Your rate group's share of the WSIB's operating costs and the legislated funding that goes to the Ministry of Labour, Ontario's Health and Safety Associations, and other organizations that serve Ontario workers and employers.
C. Past Claims Cost – A charge required to eliminate the WSIB's unfunded liability.

2017 Premium Rate Components

	2016	2017	Percentage Change
A. New Claims Cost	2.851	2.780	-2.5%
B. Administration Expenses	1.049	1.079	2.9%
C. Past Claims Cost	5.200	3.971	-23.6%
D. Total Premium Rate	9.10	7.83	-13.9%

Your total premium rate has decreased due to:

- New Claims Cost shows your Rate Group's performance has been improving
- Past Claims Cost has decreased (lower allocation of past claims due to the lower new claims cost compared to previous year).