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TO:	Board of Directors
FROM:	Pamela Steer, Chief Financial Officer
CLUSTER:	Finance
DATE:	October 19, 2016
SUBJECT:	2017 Rates - Update
SUBMISSION:	Decision

ISSUE

In preparing material for the technical premium rate sessions, Actuarial Services realized that the published premium rates by rate group, while producing the correct average premium rate, misallocated the Past Claims Cost ("PCC") by rate group. As a result, it is necessary to reconsider the 2017 premium rate decision.

BACKGROUND

Explanation

In the published 2017 rates, the New Claims Cost ("NCC") by rate group and the expense allocation by rate group ("RG") are both correct. The PCC allocation is wrong by RG but correct in total.

The error in the PCC allocation arose because "target rates" were initially calculated as if no rate change was to be implemented. We used correct 2017 NCC and expense components in determining these "target rates". The PCC was overstated ($1.18 per $100 of insurable earnings ("IE") instead of $1.05) so that the target rates aggregated to $2.59 per $100 of IE.

The "target rates" by RG were then adjusted to generate an average rate of $2.46 per $100 of IE (no increases other than PTSD, decreases capped at 14%).

The correct procedure would have defined "target rates" that aggregated to $2.46 i.e. that used a PCC of $1.05 per $100 of IE. This would have led to a fairer allocation of PCC by RG and a different maximum decrease.

We overlooked this error because we focused our attention on the final RG rates and did not review summaries that would have identified the error. The draft technical deck included a useful summary, which is where we discovered the error.

Options for Correction

1. Charge all rate groups the correctly calculated premiums that result in an average rate for Schedule 1 of $2.46;
2. Charge the lesser of the rate initially published for each rate group or the rate that would have been published had we used the correct PCC.

Option #2 has the benefit of ensuring that no rate group is detrimentally affected if they have made business decisions based on the published rates.

Impact of Proposed Correction

We propose that we charge 2017 rates equal to the lesser of the rate initially published for each RG or the rate that we would have charged had we begun with the correct average rate of $2.46.

In total, this proposal means that:

1. There are 54 RG's that would benefit from a decrease compared to the rates initially published.
2. For 34 RG's, the rate that would have been charged based on an average rate of $2.46 exceeds the initially published rate.
3. For 67 RG's the two rates are identical.

We do not intend to increase rates for the second category above (there would be no increase for the third one). This means that the decreases proposed for the first category would lead to a decrease in the average rate for the whole of Schedule 1. We have determined this decreased average rate to be $2.43 (approximately $60M in premium). Such a decrease does not threaten our ability to achieve the Sufficiency Ratio requirements.

Next Steps

We have asked Internal Audit to independently verify our rate calculations, which they have done. In addition, we have commissioned an analysis with the objective of assessing the controls currently in place for the purpose of rate setting and suggesting improvements to be adopted in 2017 when we set premium rates for the 2018 injury-year.

RECOMMENDATION

Recommend that the Board of Directors approve the revised set of 2017 premium rates by rate group, leading to a total planned rate reduction of 6.2%, from $2.59 per $100 of insurable earnings to $2.43.

By this approval BOD Minute #6, August 18, 2016, Page 7442 is rescinded and superseded.