2017 Premium Rate Strategy Discussion
Executive Committee

April 4, 2016

2017-2019 Rate Setting Strategy

- A strategic rate setting plan should consider the following:
  1. Schedule 1 average rate
  2. Employer rates
  3. Enabling smooth transition to the New Rate Framework
- Key Guiding Principles
  - Adhere to the Funding Policy
  - As the Sufficiency Ratio improves, prudency embedded into rate setting projections can become relatively smaller
  - WSIB wants to provide a S1 rate decrease in 2017
  - Approach needs to be revenue neutral (excluding any reductions in S1 rate)
  - WSIB must be able to operationalize the strategy chosen with minimal disruption and support, given ongoing commitments
  - Approach must be understandable for stakeholders i.e. simplicity is important
  - Communication and rate announcement to employers must be made in a timely manner

Background

- Actuarial analysis strongly suggests we plan for a reduction in 2017
  - Most recent funding projections with updated assumptions confirmed that a 5%-10% rate reduction in 2017 would meet the funding target
  - At present expect no additional reduction in 2018, followed by a significant reduction in 2019, when we plan to introduce the New Rate Framework
    - [redacted]
    - The projected results satisfy funding requirements (see Appendix I)

[redacted]

2017 Rate Setting Strategy for Employers

Analysis on the following slides compares the two approaches with the Rate Framework (RF) basis as a means of counting the number of employers who would move towards the appropriate RF rate under each of the two proposed 2017 rate implementation approaches

[redacted]

B. RG Rate Decrease Approach

- Establish the RG target rate:
  - Reflect the proper New Claims Cost (NCC) based on past 6 years experience
  - Allocate the admin expenses by 50% NCC and 50% insurable earnings and Past Claims Cost (PCC) based on NCC of RG to Schedule 1 (traditional method)
- Develop the proposed RG rate
  - No RG rate increases
  - Rate decreases for those RGs with good performance but limited to 15%
  - Resulting overall Schedule 1 rate decrease about 5%
- All employers within a RG pay the same rate

Distribution of # of firm changes by class and approach

Proposed Approach

For Comparison purpose only

Class	Class Description	[redacted]	RG Rate Decrease Approach (compared to Published Rates) Firm Counts with				[redacted]
			Rate Increase	Rate Decrease	No Change	Total	
A	Forest Products		0	48	1,148	1,196	
B	Mining and Related Industries		0	341	494	835	
C	Other Primary Industries		0	0	15,733	15,733	
D	Manufacturing		0	5,620	17,715	23,335	
E	Transportation and Storage		0	607	14,619	15,226	
F	Retail and Wholesale Trades		0	33,104	19,579	52,683	
G	Construction		0	95,912	5,450	101,362	
H	Government and Related Services		0	2,622	7,429	10,051	
I	Other Services		0	49,515	19,561	69,076	
Schedule 1			**0**	**187,769**	**101,728**	**289,497**	
			0.0%	64.9%	35.1%	100.0%	

[redacted]

Comparison of Class Rates

Proposed Approach

For Comparison purpose only

Class	Description	Published Rate ($2.59)	[redacted]	RG Rate Decrease Approach ($2.46)	[redacted]
A	Forest Products	$5.50	[redacted]	$5.50	[redacted]
B	Mining and Related Industries	$6.85	[redacted]	$6.36	[redacted]
C	Other Primary Industries	$4.19	[redacted]	$4.19	[redacted]
D	Manufacturing	$2.62	[redacted]	$2.56	[redacted]
E	Transportation and Storage	$5.09	[redacted]	$5.05	[redacted]
F	Retail and Wholesale Trades	$1.82	[redacted]	$1.74	[redacted]
G	Construction	$6.43	[redacted]	$5.73	[redacted]
H	Government and Related Services	$1.42	[redacted]	$1.40	[redacted]
I	Other Services	$1.34	[redacted]	$1.26	[redacted]
Schedule 1		**$2.59**	[redacted]	**$2.46**	[redacted]

[redacted]

Differing Employer Impacts

- On a Schedule1 level basis

[redacted]

- [redacted]
- [redacted]

[redacted]

- [redacted]
  - [redacted]
  - [redacted]
- [redacted]
  - [redacted]
  - [redacted]

[redacted]

Differing Employer Impacts (cont'd)

- [redacted]

Examples of employers

[redacted]

			[redacted]						
[redacted]	[redacted]		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]									[redacted]
[redacted]									[redacted]
[redacted]									
[redacted]								[redacted]	[redacted]
[redacted]								[redacted]	[redacted]
[redacted]								[redacted]	[redacted]
[redacted]								[redacted]	[redacted]

Comparison of the Two Approaches

- [redacted]
  - [redacted]
- RG Rate Decreases (with no increases, max decrease 15%)
  - [redacted]
  - Reflects performance of RGs with modest decrease and no increase
  - Allows employers with poor performance to have rate decrease (31,000 firms) or no change in rate (55,000 firms)
  - [redacted]
  - Rate decreases for some RGs with good performance may be limited
  - Simple to understand and implement

Communication and Issues Management Considerations

- The proposal to reduce premiums by *five per cent* in 2017, and *potentially freeze but not reduce* premium rates in 2018 and possible further reduction in 2019 of ten per cent would be consistent with the 2015 Economic Statement: *"…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]*

- There is an expectation of rate reductions by employers. [redacted].

- A premium rate freeze in 2018 may be unwelcome by employers as they may have the pre-conceived notion that there will be a rate reduction in every year. (2017, 2018 and 2019)

- The proposed 2018 rate freeze would happen on the year that has been chosen by the province to launch the Ontario Registered Pension Plan (ORPP).

- The proposed 2018 rate freeze would also fall on an election year in Ontario, potentially enabling opponents of the government to characterize the lack of further rate reduction in that year as a broken political promise.

Communication and Issues Management Considerations (cont'd)

The following will also have to be considered

[redacted]

- [redacted]
- [redacted]

A rate group decrease (no increase & maximum of x% increase):

- Reflects performance of employers within the rate group.
- This would align more closely to the Rate Framework that reflects employers' performance.
- There may be complaints that strong performing employers do not get the "deserved" decrease in the rate groups that have 'no change'.
- There may be complaints that the reduction is limited.
- This scenario would see no premium rate increase for poor performing rate groups and up to a maximum of 15 per cent decrease in premium rates for strong performing rate groups.

Timeline for 2017 Premium Rates

- May: AAC/CAC meetings to present proposed approach for 2017 rates
- June: A&FC to present funding forecast and finalize 2017 rate setting approach
- July: Discuss proposed preliminary rates with AAC/CAC
- August: Recommend 2017 rates to BoD
- September: Communicate 2017 rates to employers and release of Economic Statement and Sufficiency Plan Update

Appendix

Funding Forecast : Comparison of Assumptions

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%
NCC	$1.01	$0.96	$0.93

Note: Level Equivalent Rate for Investment Returns determined by solving for the equivalent rate to achieve the same Sufficiency Ratio at 2027
2016 Funding NCC 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.

Summary of Funding Forecast Scenarios

[redacted]

March 8 Discussion Employer's Rate Setting Options

[redacted]