EC Meeting
May 31, 2016

Review BoD material for

2017 Rate Setting Strategy and preliminary 2017 Premium Rates

wsib
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Agenda

- 2016 Funding Projections
- Considerations for 2017 Rate Setting Approach
- Recommendations

2016 Funding Projection Scenarios

- Various Funding Scenarios are prepared reflecting the latest set of assumptions:
  - Base case (with no rate reduction)
  - Other scenarios that reflect different options of rate reduction between 2017 to 2019 (so as to align with what was presented in the 2015 Economic Statement):
    1. 5% rate reduction for each of the next 3 years
    2. [redacted]
  - 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 in 2019

Comparison of Key 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	$0.85 (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 NCC (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.

2016 Base Scenario Funding Projections

Basis	NCC/$100 IE	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

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 reduction 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%
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Notes: Average Premium reflects changing insurable earnings mix by industry and is after adjustment for Merit Adjusted Premium program (MAP).
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 a ER % of 3.5%.
At 2019, the Rate Framework implementation is assumed to be revenue neutral (i.e. assuming an ER % 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.

2016 Funding Projections – adverse scenarios

Scenario	Industry Sector	Insurable Earnings	Sensitivity Applied (Years)	NCC	Other	Premium Decrease
Adverse 1	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% decr (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% decr. (2017-2019) [redacted]

Basis	Premium Rate						Sufficiency Ratio						
	2015	2016	2017	2018	2019	2020+	2015	2016	2017	2018	2019	2022	2027
2016 Funding - Base (5%,5%,5% premium rate reduction 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%
2016 Funding - Adverse 1, (5%,5%,5% Premium Reduction (2017-2019)), Sufficiency Plan Adverse	$2.57	$2.57	$2.44	$2.32	$2.13	$2.13	77.9%	83.9%	86.6%	86.1%	84.5%	85.4%	103.0%
2016 Funding - Adverse 2 (Economic Disaster), (5%,5%,5% Premium Reduction (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%
[redacted]	[redacted]							[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Notes: Average Premium reflects changing insurable earnings mix by industry and after adjustment for Merit Adjusted Premium program (MAP).
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 a ER % of 3.5%.
At 2019, the Rate Framework implementation is assumed to be revenue neutral (i.e. assuming an ER % of 3.5%) as shown with the reduced premium starting in 2019.

Note that granting the rate decreases does expose us to additional risk. In the adverse scenarios, rate adjustments would be needed to achieve Sufficiency Ratio requirements. The message is that we need to be prudent in the reductions that we offer and closely monitor the environment.

2017-2019 Rate Setting Strategy

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

2017 Rate Setting Approach For Employers

- Two broad approaches were considered :
  - [redacted]
    - [redacted]
    - RG (rate group) Rate Decrease: reflect experience of rate group. Allow reductions only to those rate groups with favourable New Claims Cost experience and no rate groups with rate increases in 2017 (except the rate groups that are impacted by PTSD)
  - The Rate Group approach will apply rate reduction to all employers in the rate group that (would apply even to employers whose experience does not justify it, if the rate group experience justifies a decrease)
  - The current experience rating program will continue to reflect the employers' experience that would help to mitigate the situations when employers receive rate reduction but experience does not justify it

- It was concluded that the 'RG Rate Decrease Approach' is the preferred approach for 2017 rate setting and the AAC endorsed this approach
  - It takes actual rate group experience into account i.e. is more consistent with the rate framework approach (although at RG level instead of individual employer)
  - Moves fewer employers requiring an increase away from their projected rate framework rate

- Two rate groups would have rate increase due to the presumptive PTSD legislation (see next slide)

2017 Rate Setting Strategy for Employers (Cont'd)

- Premium Rate impact due to recent legislation changes :
  - In 2014 the rate for RG 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 two-year retroactive cost based on the legislation
    - It is recommended that for pricing purposes we assume a lower impact than will be assumed for liability purposes
    - The Rate Groups that would be affected are :
      - RG 845: Government Services - includes police, firefighter etc. This represents about 88% of First Respondents population
      - RG 590 : Ambulance Services - includes paramedics. This represents about 12% of First Respondents population
    - Cost impact to the Rate Groups would be :

Rate Group	2016 Rate	2017 Proposed Rate * (w/o PTSD)	PTSD Rate Impact	2017 Proposed Rate with PTSD	% Increase
590 in Clas E	$6.46	$6.46	$0.30	$6.76	4.60%
845 in Class H	$2.88	$2.88	$0.17	$3.05	5.90%

* The proposed rate reflects the latest experience that these rate groups would not entitle a rate reduction

2017 Rate Setting Options

- [redacted]
  - [redacted]
    - [redacted]
  - [redacted]
    - [redacted]
    - [redacted]
  - [redacted]
    - [redacted]
    - [redacted]
- The above 3 options would be consistent with the Funding Scenarios analysis which showed that the Funding Targets would be met under the base case assumptions

Recommendations on 2017 Preliminary Premium Rates

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

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

[redacted]

Next Steps

- Finalize costing, premium rates by rate group and projections
- Meet with CAC in July/August
- August BoD for final approval
- Rate announcement in early September