

500 Minutes

2. 7454

October 26, 2017 continued

* NOTE: date should read
"October 26, 2016"

2. 2017 Premium Rates Update (In Camera)

Members were provided with an update on the 2017 Premium Rates and an error in calculating the past claims costs for rate groups. This has resulted in the need for the Board of Directors to reconsider the 2017 premium rate decision made at the August Board meeting.

Mr. Walker moved that the meeting move out of in camera. The motion was seconded by Mr. McCague and carried.

Mr. McCague put forth a motion to 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 By this approval BOD Minute #6, August 18, 2016, Page 7442, is rescinded and superseded.

Messrs. Blue and Baird left the meeting.



non-responsive

TO: Board of Directors
FROM: Pamela Steer, Chief Financial Officer
CLUSTER: Finance
DATE: October 26, 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.

APPROVED BY THE BOARD
OF DIRECTORS

this...26...day of...October...20...16

Diane Wilke
Secretary

2017 Premium Rates - Update

Initial BoD Decision on 2017 Premium Rates

- Based on the 2016 Funding Projection, the BoD 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%
 - Additional Post Traumatic Stress Disorder costs to be included in rate group 845: Local Government Services and rate group 590: Ambulance Services
 - Other rate groups will have no rate change from 2016

Update on Initial 2017 Premium Rates Decision

- When preparing for technical sessions, we realized that we had not allocated the Past Claim Cost ("PCC") component of premium rates as we had intended to:
 - Consequence – misalignment of proposed rate group ("RG") rates and misstatement of "target rates" by RG
 - Note – New Claims Cost and expenses were properly allocated and PCC was correct in total (in the final rate)
- Correct PCC allocation in the target rates would have changed RG rates compared to those initially published
 - Some RG rates would be higher, others lower
- Our recommendation – charge each RG for 2017 at the lower of rate initially proposed or rate that would have been charged reflecting correct PCC allocation (balancing to \$2.46)
- Impact of correct PCC allocation
 - Still no increases (other than the two RG affected by PTSD)
 - By doing this, we honour the commitment originally provided and allow those RG's deserving a decrease to benefit
- Overall Schedule 1 average rate reduction becomes just over 6% instead of 5%, resulting in a Schedule 1 rate of \$2.43
- The following summary tables show the revised class rates compared to the previous version

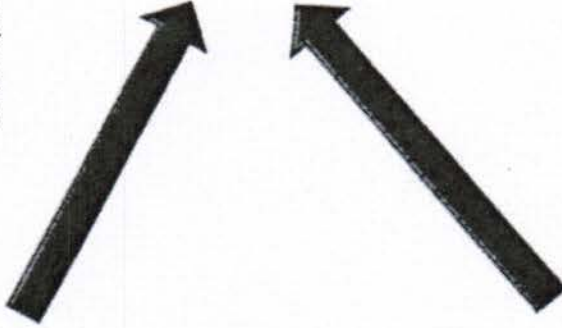
Progression to "Best of" 2017 Rates - Class

Class	2016		2017		2017 Charged	
	Published	Target \$2.59	Target \$2.59	\$2.59 Starting Point	\$2.59 Starting Point	
A	5.50	7.68	7.68	5.51	5.51	
B	6.85	6.40	6.40	6.33	6.33	
C	4.19	5.72	5.72	4.15	4.15	
D	2.62	2.89	2.89	2.54	2.54	
E	5.09	5.74	5.74	5.05	5.05	
F	1.82	1.75	1.75	1.71	1.71	
G	6.43	5.75	5.75	5.89	5.89	
H	1.42	1.46	1.46	1.40	1.40	
I	1.34	1.14	1.14	1.21	1.21	
1	2.59	2.59	2.59	2.46	2.46	

Class	2017		2017 Charged	
	Target \$2.46	\$2.46 Starting Point	Target \$2.46	\$2.46 Starting Point
A	7.28	5.46	5.46	5.46
B	6.08	6.44	6.44	6.44
C	5.42	4.15	4.15	4.15
D	2.75	2.52	2.52	2.52
E	5.44	5.07	5.07	5.07
F	1.67	1.72	1.72	1.72
G	5.45	5.93	5.93	5.93
H	1.39	1.37	1.37	1.37
I	1.08	1.23	1.23	1.23
1	2.46	2.46	2.46	2.46

N.B. "Proposed basis" reflects the lower of rate initially proposed or revised rate described in previous slide. This means that the class rate under the proposed basis will tend to be lower than under either the \$2.59 or the \$2.46 scenario

Class	2017 Charged	
	Proposed Basis	
A	5.46	
B	6.25	
C	4.15	
D	2.50	
E	5.04	
F	1.70	
G	5.79	
H	1.37	
I	1.20	
1	2.43	



2017 Premium Rates – Comparison of Class Rates

Class	Description	2016 Published Rate (\$2.59)	2017 Rate		% Change
			No Increase (except PTSD) Decreases up to 14%	(\$2.43)	
A	Forest Products	5.50	5.46		-0.7%
B	Mining and Related Industries	6.85	6.25		-8.8%
C	Other Primary Industries	4.19	4.15		-1.0%
D	Manufacturing	2.62	2.50		-4.6%
E	Transportation and Storage	5.09	5.04		-1.0%
F	Retail and Wholesale Trades	1.82	1.70		-6.6%
G	Construction	6.43	5.79		-10.0%
H	Government and Related Services	1.42	1.37		-3.5%
I	Other Services	1.34	1.20		-10.4%
Schedule 1		2.59	2.43		-6.2%

2017 Schedule 1 Premium Rate Components



	2016	2017	%Change
New Claims Cost	1.010	0.930	-7.9%
Admin Expenses	0.483	0.479	-0.8%
Past Claims Cost	1.095	1.019	-6.9%
Total Rate	2.59	2.43	-6.2%

New Claims Cost (NCC) – The expected future cost of your rate group's new claims for the year.

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.

Past Claims Cost (PCC) – A charge required to eliminate the WSIB's unfunded liability.

Recommendation

- Recommendation for 2017 rates :
 - To 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

APPROVED BY THE BOARD
OF DIRECTORS

this 26th day of 20¹⁶
October

Secretary

Appendix

- The following slides show the 54 Rate Groups that would benefit from a decrease compared to the rates initially published as well as the 34 that would have had an increase in their target rate had we correctly allocated the PCC in the first place

List of Rate Groups With a Decrease From Previously Published 2017 Rates

Rate Group	Rate Group Description	2017 \$2.46		2017 \$2.46		2017 \$2.46		2017 \$2.46		2017 \$2.46		2017 \$2.46	
		Published	Starting Point	Published	Starting Point	Published	Starting Point	Published	Starting Point	Published	Starting Point	Published	Starting Point
38	Milk Products And Forestry Services	8.80	8.60	8.80	8.60	1.93	1.91	1.93	1.91	1.93	1.91	1.93	1.91
36	Veneers, Plywood And Wood Preservation	5.37	5.04	4.95	4.8	2.54	2.36	2.36	2.34	2.36	2.34	2.36	2.34
119	Other Mines	6.69	6.40	6.16	2.59	2.20	2.20	2.20	2.09	2.20	2.09	2.20	2.09
134	Aggregates	6.52	6.19	6.00	4.45	2.48	2.41	2.41	2.29	2.41	2.29	2.41	2.29
174	Tobacco And Mushroom Farms	5.15	4.77	4.74	2.85	2.60	2.56	2.56	2.44	2.56	2.44	2.56	2.44
207	Meat And Fish Products	4.66	4.66	4.45	3.26	0.70	0.66	0.70	0.65	0.66	0.65	0.66	0.65
210	Poultry Products	3.50	3.50	3.36	1.39	1.84	1.84	1.84	1.83	1.84	1.83	1.84	1.83
216	Dairy Products	2.26	2.24	2.13	1.15	3.69	3.56	3.56	3.40	3.56	3.40	3.56	3.40
223	Biscuits, Snack Foods And Other Food Products	2.79	2.72	2.58	4.04	4.16	4.16	4.16	4.05	4.16	4.05	4.16	4.05
239	Cloth, Carpets And Textile Products	3.71	3.69	3.50	4.85	5.29	4.95	4.95	4.87	4.95	4.87	4.95	4.87
325	Wooden And Other Non-Metal Furniture	4.30	4.30	4.17	5.57	4.55	4.55	4.55	4.40	4.55	4.40	4.55	4.40
328	Furniture Parts And Fixtures	4.17	4.17	4.00	1.32	14.80	13.71	13.71	13.62	13.71	13.62	13.71	13.62
335	Printing	0.56	0.56	0.55	6.87	7.03	6.65	6.65	6.47	6.65	6.47	6.65	6.47
338	Folding Cartons	2.85	2.85	2.57	70	12.70	12.70	12.70	12.21	12.70	12.21	12.70	12.21
361	Non-Ferrous Metal Industries	3.59	3.43	3.31	85	0.21	0.21	0.21	0.20	0.21	0.20	0.21	0.20
379	Hardware, Tools And Cutlery	2.74	2.57	2.53	182	0.78	0.78	0.78	0.77	0.78	0.77	0.78	0.77
383	Heating, Refrigeration And Air Conditioning Equipment	2.78	2.73	2.60	150	3.29	3.24	3.24	3.08	3.24	3.08	3.24	3.08
390	Other Stamped And Pressed Metal Products	3.59	3.43	3.31	368	1.10	1.09	1.09	1.04	1.09	1.04	1.09	1.04
393	Wire Products	3.37	3.25	3.11	178	3.31	3.10	3.10	3.05	3.10	3.05	3.10	3.05
417	Aircraft And Aircraft Parts	1.56	1.51	1.44	127	3.31	3.10	3.10	3.05	3.10	3.05	3.10	3.05
419	Motor Vehicle Assembly	3.59	3.43	3.31	166	1.10	1.09	1.09	1.04	1.09	1.04	1.09	1.04
421	Other Motor Vehicle Parts And Equipment	3.59	3.43	3.31	385	1.74	1.66	1.66	1.61	1.66	1.61	1.66	1.61
424	Motor Vehicle Stamping	3.59	3.43	3.31	101	3.08	2.99	2.99	2.84	2.99	2.84	2.99	2.84
425	Motor Vehicle Wheels And Brakes	3.59	3.43	3.31	24	2.19	2.16	2.16	2.05	2.16	2.05	2.16	2.05
496	Concrete Products	5.42	5.30	5.02	171	0.21	0.21	0.21	0.20	0.21	0.20	0.21	0.20
538	Sporting Goods And Toys	4.28	4.28	4.17	109	0.38	0.36	0.36	0.35	0.36	0.35	0.36	0.35
542	Other Manufactured Products	2.13	2.13	2.08	160	1.09	1.09	1.09	1.07	1.09	1.07	1.09	1.07
553	Air Transport Services				291								
604	Food, Sales				48								
606	Grocery And Convenience Stores				259								
612	Agricultural Products, Sales				445								
633	Petroleum Products, Sales				285								
638	Pharmacies				326								
670	Machinery And Other Vehicles, Sales				139								
704	Electrical And Incidental Construction Services				115								
707	Mechanical And Sheet Metal Work				404								
711	Roadbuilding And Excavating				485								
723	Industrial, Commercial & Institutional Construction				557								
728	Roofing				132								
732	Heavy Civil Construction				687								
737	Millwrighting And Welding				70								
741	Masonry				85								
755	Non-Exempt Partners and Executive Officers in Construction				182								
833	Electric Power Generation				150								
851	Homes For Nursing Care				368								
853	Hospitals				178								
857	Nursing Services				127								
861	Treatment Clinics And Specialized Services				166								
911	Security And Investigative Services				385								
933	Equipment Rental And Repair Services				101								
937	Recreational Services And Facilities				24								
956	Legal And Financial Services				171								
958	Technical And Business Services				109								
962	Advertising And Entertainment				160								

There are 19 rate groups getting a decrease that did not get a decrease in the originally published rates (highlighted in grey above).

List of Rate Groups With An Increased Rate Based On Average Rate of \$2.46

Rate Group	Rate Group Description	2016 Published \$2.59 Starting Point	2017 \$2.46 Starting Point \$2.46	2017 \$2.46 Starting Point "Best of" Rate	2017 \$2.43 Rate	Firm Count
110	Gold Mines	8.15	7.01	7.50	7.01	71
214	Fruit And Vegetable Products	2.68	2.44	2.47	2.44	179
220	Other Bakery Products	4.00	3.54	3.68	3.54	404
231	Soft Drinks	3.58	3.08	3.30	3.08	83
301	Clothing, Fibre And Yarn	2.43	2.19	2.24	2.19	578
323	Metal Furniture	2.33	2.14	2.15	2.14	204
428	Motor Vehicle Fabric Accessories	4.58	4.00	4.22	4.00	54
442	Railroad Rolling Stock	2.74	2.36	2.53	2.36	58
517	Soap And Toiletries	1.68	1.45	1.55	1.45	160
533	Signs And Displays	3.19	2.95	2.94	2.75	982
560	Warehousing	3.43	2.95	3.16	2.95	642
607	Specialty Food Stores	3.73	3.21	3.44	3.21	1,434
608	Beer Stores	4.17	3.59	3.84	3.59	7
636	Other Sales	1.46	1.32	1.35	1.32	17,740
641	Clothing Stores	1.59	1.37	1.47	1.37	2,794
668	Computer, Electronic And Electrical Equipment, Sales	0.50	0.45	0.46	0.45	3,373
681	Lumber And Builders Supply	3.01	2.72	2.77	2.72	1,574
689	Waste Materials Recycling	6.17	5.65	5.68	5.65	549
719	Inside Finishing	7.51	6.65	6.91	6.65	22,341
748	Form Work And Demolition	18.31	15.75	16.85	15.75	872
751	Siding And Outside Finishing	10.25	8.82	9.43	8.82	7,341
764	Homebuilding	9.10	7.83	8.38	7.83	30,168
830	Power And Telecommunication Lines	4.45	3.83	4.10	3.83	526
838	Natural Gas Distribution	0.69	0.62	0.64	0.62	14
852	Homes For Residential Care	3.30	2.84	3.04	2.84	424
905	Apartment And Condominium Services	3.04	2.70	2.80	2.70	4,759
908	Other Real Estate Services	1.31	1.13	1.21	1.13	2,226
919	Restaurants And Catering	1.72	1.58	1.59	1.58	25,865
921	Hotels, Motels And Camping	3.10	2.69	2.86	2.69	2,675
923	Janitorial Services	3.73	3.21	3.44	3.21	7,804
929	Supply Of Non-Clerical Labour	5.05	4.35	4.65	4.35	1,321
944	Personal Services	3.26	2.81	3.00	2.81	9,173
975	Linen And Laundry Services	4.12	3.55	3.80	3.55	529
983	Communications Industries	0.37	0.32	0.35	0.32	270

There are 34 rate groups (147,000 firms) whose rates would have increased from those originally published had we used an average rate of \$2.46.