Rate Framework Modernization

Presentation on Rate Group 810
School Boards

Illustrative Example
Rate Group 810 – Proposed Preliminary Rate Framework

- The following information is provided to demonstrate an illustrative example for **Rate Group 810 School Boards** within the proposed preliminary Rate Framework.

- The proposed preliminary Rate Framework is a plausible working model that utilizes sufficient data to be able to:
  - identify how employers would be classified in the 22 industry classes contained in the proposed classification structure; and
  - provide an illustrative example of potential premium rates to employers from a premium rate perspective.

- The working model reflects the proposed preliminary Rate Framework as though it had been implemented in 2014, considering relevant data for the period 2007- 2012. See Appendix A for the underlying assumptions.

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North American Industry Classification System (NAICS) - Adaptation

- The proposed classification structure, while using a lettering system to align with legislative provisions, is mapped to the NAICS numbering system.

- The accompanying chart identifies the correspondence between the WSIB's proposed classification structure and the 2 or 3-digit level found in NAICS.

NAICS Hierarchy

Industry sectors (two-digit codes)

Industry subsectors (three-digit codes)

Industry groups (four-digit codes)

Industries (five-digit codes)

Canadian industries (six-digit codes)

	Proposed Classification Structure	NAICS Equivalent
A	Primary Resource Industries	11-21
B	Utilities	22
C	Public Administration	91
D	Food, Textile, and Related Manufacturing	31
E	Resource and Related Manufacturing	32
F	Machinery and Related Manufacturing	33
G1	Building Construction	236
G2	Infrastructure Construction	237
G3	Specialty Trades Construction	238
H	Wholesale Trade	41
I	General Retail	44
J	Specialized Retail and Department Stores	45
K	Transportation and Warehousing	48-49
L	Information and Culture	51
M	Finance	52-53-55
N	Professional, Scientific and Technical	54
O	Administrative, Waste and Remediation	56
P	Hospitals	622
Q	Health and Social Services	621-623-624
R	Leisure and Hospitality	71-72
S	Other Services	81
T	Education	61

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How Could RG 810 Employers be Classified?

- The chart below outlines the class that employers in RG 810 would be allocated to under the proposed model:

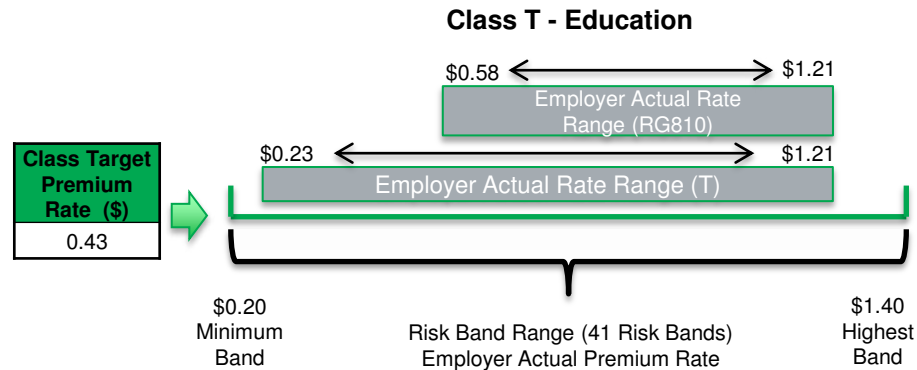| Proposed Classification Structure	Number of Employers	2013 Insurable Earnings ($B)	% of Employers	% of Insurable Earnings
T - Education	129	0.72	100.0%	100.0%
Total	129	0.72	100.0%	100.0%

- On the next slide, the charts will demonstrate Employer Target and Actual Premium Rates for employers in Class T and RG 810, based on the 2014 premium rates used in the proposed preliminary Rate Framework and using the underlying assumptions identified in Appendix A.

- Key Definitions:

   Class Target Premium Rate is a premium rate based on the valuation of collective liabilities of new claim costs for the employers within a respective class, their allocation of administrative costs, and apportionment of the past claims costs for a particular class.

   Employer Target Premium Rate is an adjusted premium rate that represents how much an employer needs to pay in order to fund their fair share of costs, as well as the collective costs of their class.

   Employer Actual Premium Rate is an adjusted premium rate that represents how much each employer would pay taking into consideration risk band limitations, previous year(s) premium rates, minimum premium rate, as well as the collective experience of all employers in that class. For the purpose of this analysis, this is represented as a premium rate for 2014, (considering the relevant data from 2007-2012).

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What Could the Premium Rates look like?

- The chart below represents the ranges of **<u>Employer Target Premium Rates</u>** for employers in Class T and RG 810, based on the 2014 premium rates used in the proposed preliminary Rate Framework and using the underlying assumptions identified in Appendix A.

Class T - Education
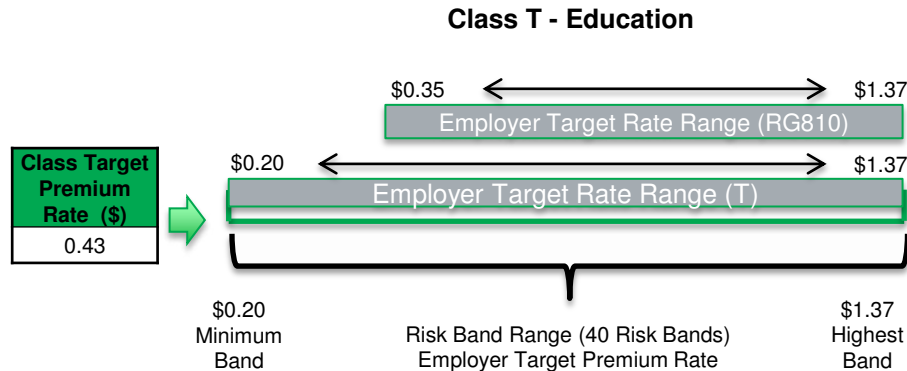
- The chart below represents the ranges of **<u>Employer Actual Premium Rates</u>** for employers in Class T and RG 810, using the same methodology.

Class T - Education

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Risk Band Analysis

How Could RG 810 Employers be Risk Banded?

- The chart below outlines possible risk bands for employers in RG 810 who will be moving to Class **T - Education**, by showing the number and percentage of employers and their actual risk band premium rate. This risk band distribution is subject to change if there are amendments, such as splitting up the classes.

T - Education - RG 810: 2014 Employer Actual Rate – Subject to Transition Plan*

	Lowest Band	Risk Bands									Highest Band	
Risk Band Movement from Class Premium Rate (Risk Band 0)	5	<-3	-3	-2	-1	Average 0	1	2	3	>3	20	Total
Risk Band Rate	$0.58	-	$0.39	$0.41	$0.43	$0.46	$0.48	$0.50	$0.53	-	$1.21	
# of Employers	1	0	0	0	0	0	0	0	0	129	1	129
% of Employers		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%		100.0%

0.0%   100.0%

Overview of Analysis:
- No employers will see a lower premium rate when compared to the average risk band rate.
- No employers will pay the average risk band rate.
- About 100.0% of employers will see a higher premium rate when compared to the average risk band rate. Most of these employers will gradually see their premium rate decrease over time, if cost experience is demonstrated to be in line with the class average experience.

* While the above charts outline the impact to employers considering a +/- 3 risk band limitation scenario that incorporates their Starting Point, these results may be different once a final transition plan (that has received stakeholder input) has been developed to transition employers from the current approach to setting and classifying rates under the proposed preliminary Rate Framework scheme.

Summary of Risk Band Movement

- The charts below demonstrate a significant level of stability by showing the year over year risk band movement, as though the proposed preliminary Rate Framework had been in place **(without the effect of the 3 risk band limitation)**, focusing specifically at years 2007 to 2013, to show a summary of:

    – All the employers who are in RG 810

Org % with band movement -3 to 3							
RG	**2007 to 2008**	**2008 to 2009**	**2009 to 2010**	**2010 to 2011**	**2011 to 2012**	**2012 to 2013**	**Active orgs***
810	90.34%	90.28%	91.94%	91.79%	94.78%	97.84%	139

    – The proposed class structure including RG 810

Org % with band movement -3 to 3										
Class	**Class Description**	**2007 to 2008**	**2008 to 2009**	**2009 to 2010**	**2010 to 2011**	**2011 to 2012**	**2012 to 2013**	**Total Active orgs in class***	**Active orgs in RG 810***	**% of RG 810 to class**
T	Education	95.27%	94.66%	94.50%	95.11%	96.24%	97.96%	786	139	17.68%
Total								786	139	

* in 2012 and in 2013

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Target Premium Rates

Current State Analysis:
Class and Rate Group Level Target Premium Rates

- The WSIB has developed the related class-level and rate group level target premium rates under the Current State, based on the 2014 premium rates and using the underlying assumptions identified in Appendix A.

- Other possible considerations or approaches could be considered and could result in very different class-level target rates. In considering this information, it is important to recognize that the composition of the current Rate Groups differs from the modernized NAICS-based classification structure, making for a difficult comparison.

Industry Class	2014 Net Rate
A – Forest Products	4.93
B – Mining and Related	6.28
C – Other Primary Industries	4.04
D – Manufacturing	2.49
E – Transportation and Storage	4.83
F – Retail and Wholesale Trades	1.75
G – Construction	6.36
H – Government and Related	1.33
I – Other Services	1.27
Schedule 1	2.46

2014 Target Rate	
($10B UFL)	($0 UFL)
5.79	3.60
4.90	3.13
4.70	2.95
2.99	1.88
4.53	2.79
1.65	1.08
5.52	3.41
1.43	0.93
1.25	0.81
2.46	1.56

2014 Rate Group Net & Target Rate			
Rate Group	Net Rate ($10B UFL)	Target Rate ($10B UFL)	Target Rate ($0 UFL)
810	0.82	0.69	0.47
817	0.39	0.37	0.25
830	3.92	3.39	2.14
833	0.70	0.80	0.55
835	0.97	1.08	0.74
838	0.03	0.96	0.67
845	2.26	2.36	1.50
851	3.23	3.65	2.28
852	2.95	3.37	2.11
853	1.18	1.13	0.77
857	3.19	3.64	2.27
858	3.21	3.32	2.08
861	1.12	1.10	0.75
875	0.77	0.81	0.55

Net Rate - represents the premium for respective industries, considering:
– RG rate freeze from 2013 published rates
– 2014 ER adjustments

Target Rate - represents the target premium for respective industries, considering:
– adjusted NCC to reflect actual experience
– balance to Schedule 1 rates of $2.46 and $1.56

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Proposed Preliminary Rate Framework: Class Level Target Premium Rates and Risk Band Ranges

- The WSIB has developed the related class-level target premium rates and the risk band range for each class under the proposed preliminary Rate Framework, based on the 2014 premium rates used in the proposed preliminary Rate Framework and using the underlying assumptions identified in Appendix A.

Class Letter	Class Description	Class Premium Rates with $10 UFL				Class Premium Rates with $0 UFL			
		Class Target Premium Rate ($)	Employer Target Premium Rate Risk Band Range ($)			Class Target Premium Rate ($)	Employer Target Premium Rate Risk Band Range ($)		
			Minimum Band	Highest Band	# of Risk Bands		Minimum Band	Highest Band	# of Risk Bands
A	Primary Resource Industries	4.68	0.24	14.94	83	2.93	0.15	9.27	83
B	Utilities	1.06	0.20	3.44	58	0.73	0.15	2.37	56
C	Public Administration	3.86	0.20	12.05	80	2.40	0.15	7.50	79
D	Food, Textile, & Related Manufacturing	3.08	0.20	10.13	79	1.93	0.15	6.33	75
E	Resource and Related Manufacturing	3.30	0.20	10.98	81	2.06	0.15	6.82	77
F	Machinery and Related Manufacturing	3.20	0.20	9.82	79	2.00	0.15	6.13	75
G1	Building Construction	5.22	0.26	16.64	83	3.21	0.16	10.22	83
G2	Infrastructure Construction	4.87	0.24	15.50	83	3.00	0.15	9.55	83
G3	Specialty Trades Construction	4.57	0.23	14.35	83	2.82	0.15	8.83	82
H	Wholesale Trade	1.73	0.20	5.49	67	1.13	0.15	3.59	64
I	General Retail	1.66	0.20	4.91	65	1.09	0.15	3.23	62
J	Specialized Retail & Department Stores	1.46	0.20	4.34	63	0.97	0.15	2.88	60
K	Transportation and Warehousing	4.26	0.22	13.98	83	2.64	0.15	8.59	81
L	Information and Culture	0.61	0.20	2.09	48	0.42	0.15	1.44	46
M	Finance	1.37	0.20	4.50	63	0.91	0.15	2.97	60
N	Professional, Scientific and Technical	0.55	0.20	2.06	48	0.38	0.15	1.42	46
O	Administrative, Waste & Remediation	2.59	0.20	8.39	75	1.64	0.15	5.27	72
P	Hospitals	1.13	0.20	3.67	59	0.77	0.15	2.50	57
Q	Health and Social Services	2.28	0.20	6.86	72	1.46	0.15	4.41	68
R	Leisure and Hospitality	1.90	0.20	5.75	68	1.23	0.15	3.73	65
S	Other Services	2.43	0.20	7.71	74	1.54	0.15	4.88	70
T	Education	0.43	0.20	1.37	40	0.30	0.15	0.96	38
	Schedule 1	**2.46**	**2.46**		**1,534**	**1.56**	**1.56**		**1,482**

Appendix A

Underlying Assumptions

- The working model reflects the proposed preliminary Rate Framework as though it had been implemented in 2014, considering relevant data for the period 2007- 2012.

- To develop this version of target premium rates, the WSIB considered the following:
    - Adjusted NCC by industry class in line with their claims experience;
    - Allocation of the administrative costs, using the current method, but factoring adjusted NCC;
    - Apportionment of the UFL utilizing the former NCC methodology, but factoring adjusted NCC;
    - Two UFL scenarios (1) Dec 2013 – approximately $10B and (2) with No UFL; and
    - Revenue neutrality, balancing class-level target rates to $2.46 and $1.56, per the UFL scenarios, where only the value of the UFL ($0.90) represents the variance.