

# Rate Framework Modernization

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Presentation on Rate Group 845  
Local Government Services

# Illustrative Example

## Rate Group 845 – Proposed Preliminary Rate Framework

- The following information is provided to demonstrate an illustrative example for **Rate Group 845 Local Government Services** 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.

# 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.

| 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               |

## 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)

# How Could RG 845 Employers be Classified?

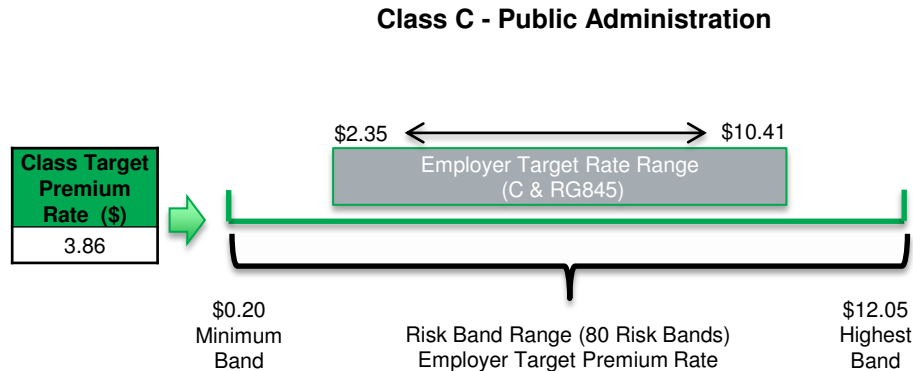
- The chart below outlines the classes that employers in RG 845 would be allocated to under the proposed model:

| Proposed Classification Structure          | Number of Employers | 2013 Insurable Earnings (\$B) | % of Employers | % of Insurable Earnings |
|--|---------------------|-------------------------------|----------------|-------------------------|
| C - Public Administration                  | 589                 | 2.09                          | 96.2%          | 96.4%                   |
| N - Professional, Scientific and Technical | 23                  | 0.08                          | 3.8%           | 3.6%                    |
| <b>Total</b>                               | <b>612</b>          | <b>2.16</b>                   | <b>100.0%</b>  | <b>100.0%</b>           |

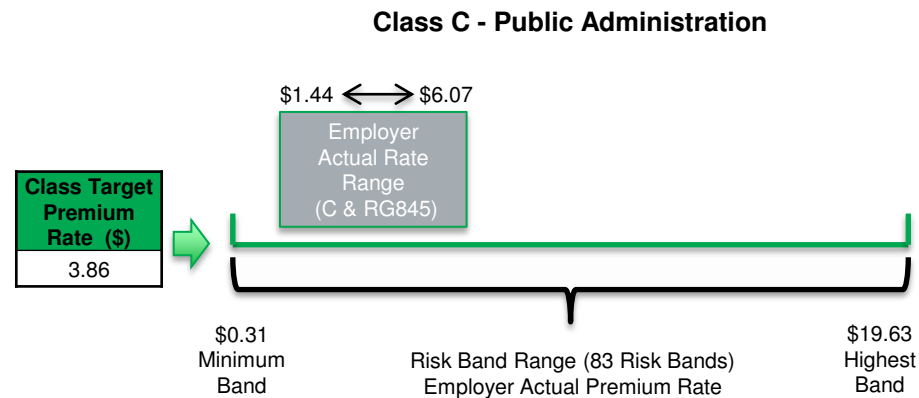
- On the next slide, the charts will demonstrate Employer Target and Actual Premium Rates for employers in Class C and RG 845, based on the 2014 premium rates used in the proposed preliminary Rate Framework and using the underlying assumptions identified in Appendix A.
- Key Definitions:
  - **Class 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).

# What Could the Premium Rates look like?

- The chart below represents the ranges of **Employer Target Premium Rates** for employers in Class C and RG 845, based on the 2014 premium rates used in the proposed preliminary Rate Framework and using the underlying assumptions identified in Appendix A.



- The chart below represents the ranges of **Employer Actual Premium Rates** for employers in Class C and RG 845, using the same methodology.



# Risk Band Analysis

# How Could RG 845 Employers be Risk Banded?

- The chart below outlines possible risk bands for employers in RG 845 who will be moving to Class **C - Public Administration**, 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.

## C - Public Administration - RG 845: 2014 Employer Actual Rate – Subject to Transition Plan\*

|  | Lowest Band | Risk Bands |        |        |        |           |        |        |        |      |        | Highest Band |  |
|--|-------------|------------|--------|--------|--------|-----------|--------|--------|--------|------|--------|--------------|--|
| Risk Band Movement from Class Premium Rate (Risk Band 0) | -29         | <-3        | -3     | -2     | -1     | Average 0 | 1      | 2      | 3      | >3   | -1     | Total        |  |
| Risk Band Rate   | \$1.44      | -          | \$5.48 | \$5.77 | \$6.07 | \$6.39    | \$6.71 | \$7.05 | \$7.40 | -    | \$6.07 |              |  |
| # of Employers   | 1           | 584        | 1      | 1      | 3      | 0         | 0      | 0      | 0      | 0    | 3      | 589          |  |
| % of Employers   |             | 99.15%     | 0.17%  | 0.17%  | 0.51%  | 0.0%      | 0.0%   | 0.0%   | 0.0%   | 0.0% |        | 100.0%       |  |

100.0%
0.0%

### Overview of Analysis:

- About 100.0% of employers will see a lower premium rate when compared to the average risk band rate.
- No employers will pay the average risk band rate.
- No employers will see a higher premium rate when compared to the average risk band rate.

\* 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 845

| Org % with band movement -3 to 3 |              |              |              |              |              |              | Active orgs* |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| RG                               | 2007 to 2008 | 2008 to 2009 | 2009 to 2010 | 2010 to 2011 | 2011 to 2012 | 2012 to 2013 |              |
| 845                              | 89.91%       | 90.72%       | 92.39%       | 94.23%       | 91.11%       | 92.59%       | 621          |

- The proposed class structure including RG 845

| Org % with band movement -3 to 3 |  |              |              |              |              |              |              | Total Active orgs in class* | Active orgs in RG 845* | % of RG 845 to class |
|----------------------------------|--|--------------|--------------|--------------|--------------|--------------|--------------|-----------------------------|------------------------|----------------------|
| Class                            | Class Description                      | 2007 to 2008 | 2008 to 2009 | 2009 to 2010 | 2010 to 2011 | 2011 to 2012 | 2012 to 2013 |                             |                        |                      |
| C                                | Public Administration                  | 90.02%       | 90.80%       | 92.38%       | 94.07%       | 91.25%       | 92.61%       | 609                         | 593                    | 97.37%               |
| N                                | Professional, Scientific and Technical | 97.98%       | 98.14%       | 98.31%       | 98.33%       | 98.49%       | 98.42%       | 9,639                       | 28                     | 0.29%                |
| <b>Total</b>                     |  |              |              |              |              |              |              | 10,248                      | 621                    |                      |

\* in 2012 and in 2013



# 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          |
| <b>Schedule 1</b>               | <b>2.46</b>   |



| 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        |
| <b>2.46</b>      | <b>1.56</b> |



| 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

# 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              |
|              | <b>Schedule 1</b>                      | <b>2.46</b>                       | <b>2.46</b>                                       |              | <b>1,534</b>    | <b>1.56</b>                      | <b>1.56</b>                                       |              | <b>1,482</b>    |

# 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.