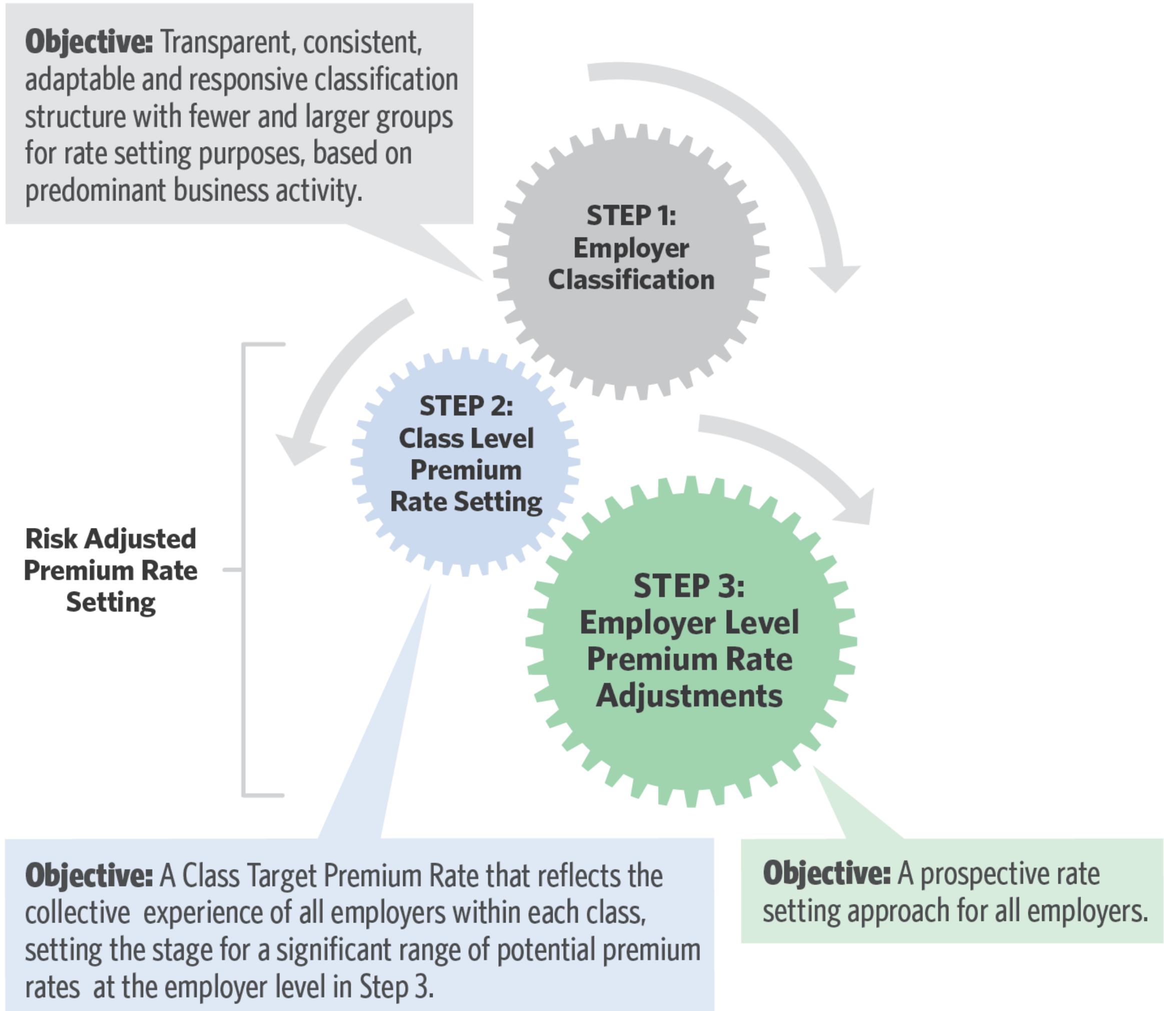
Overview: Proposed Preliminary Rate Framework

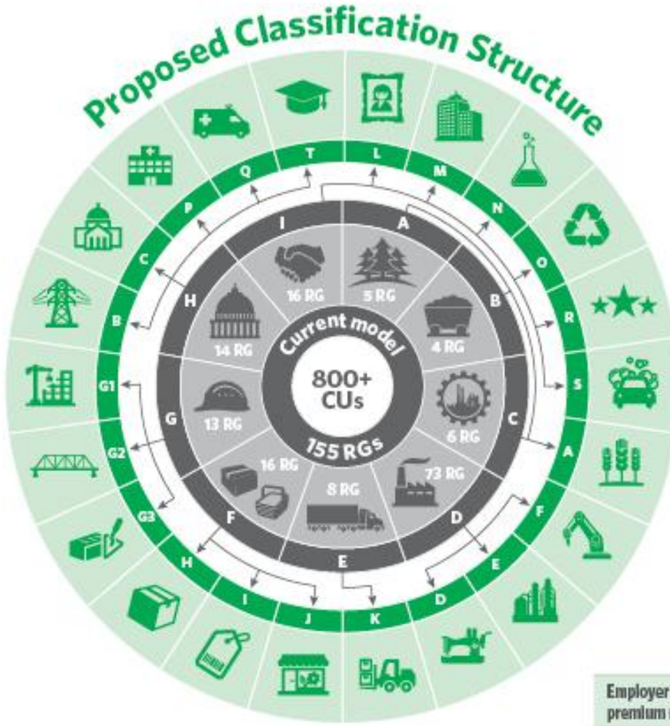
March 2015

Proposed Preliminary Rate Framework: Three Step Approach



Step 1 - Employer Classification Proposed Classification Structure

- Simple and understandable classification structure generally based on NAICS codes.
- Aggregation to significantly fewer groups to address premium rate shopping and complexity in current system (e.g. Current Class D, with 73 employer groupings would be reduced to 3 employer groupings in the proposed model).
- Abandon the practice of multi-rating by using predominant business activity for classification of all employers at the organizational level (versus account level).



PROPOSED CLASSIFICATION STRUCTURE	
A	Primary Resource Industries
B	Utilities
C	Public Administration
D	Food, Textile and Related Manufacturing
E	Resource and Related Manufacturing
F	Machinery and Other Manufacturing
G1	Building Construction
G2	Infrastructure Construction
G3	Specialty Trades Construction
H	Wholesale Trade
I	General Retail
J	Specialized Retail And Department Stores
K	Transportation and Warehousing
L	Information and Culture
M	Finance
N	Professional, Scientific and Technical
O	Administrative, Waste and Remediation
P	Hospitals
Q	Health and Social Services
R	Leisure and Hospitality
S	Other Services
T	Education

	CURRENT SYSTEM	PROPOSED PRELIMINARY RATE FRAMEWORK
Employer groupings for premium rate setting purposes	155 RGs	22 classes & 1,550 risk bands

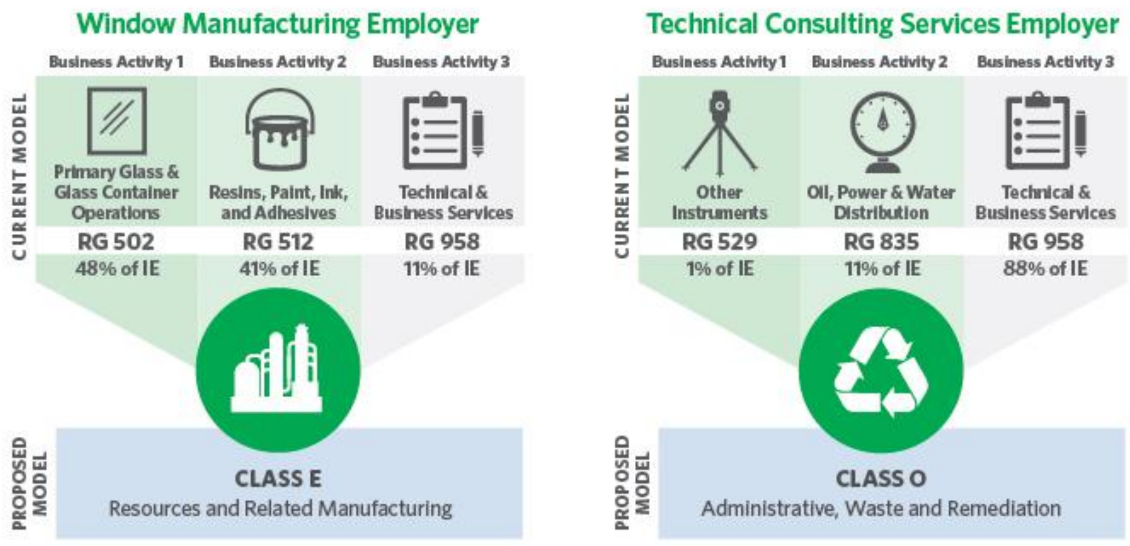
Step 1 - Employer Classification
An Adaptation from NAICS

- The proposed preliminary Rate Framework seeks to replace the existing classification system based on the Standard Industrial Classification (SIC) coding with a new industrial coding system called North American Industrial Classification System (NAICS).
- The actuarial predictability of a class was determined at a preliminary insurable earnings threshold of $2 billion. This provides a level of predictability that can be relied upon to predict future outcomes, and therefore fairly and accurately set premium rates.
- The two-digit NAICS classes were either collapsed or expanded considering actuarial predictability, desire for a structure that was simple and understandable, and an aggregation to significantly fewer groups leading to less complexity than current system.

Step 1 - Employer Classification
Employers with Multiple Business Activities

- The proposed preliminary Rate Framework ceases the practice of having multiple premium rates for single employers, which provides a significant amount of complexity in the system and can lead to adverse implications related to the fairness of the system.

- The proposed preliminary Rate Framework classifies all employers in a single class according to their predominant class. For modeling purposes, the WSIB is using a definition of "predominant class" as the class that represents the largest percentage of the employer's annual insurable earnings.



Step 1 - Employer Classification
Guide for Stakeholder Consultation

Alternatives for further discussion	Example Questions for Consultation
• Use of business activity descriptions as a foundation for the classification of employers, and considering the inclusion of risk factors; • Appropriate expansion and collapsing of employer groupings to meet actuarial predictability; • Period of time (e.g.# of years) to consider earnings' and claims' history to determine actuarial predictability and predominant business activity; and • Level of actuarial predictability for each employer grouping (e.g.class) for premium rate setting purposes.	• Is the proposed structure adapted from NAICS an appropriate grouping of employers? • Do the proposed 22 classes appropriately reflect the industry categories in today's economy? • How should the WSIB determine an employer's predominant business activity? • Is a three year window for determining an existing employer's predominant class appropriate? Is a longer window (e.g., four years) more appropriate, or is a single year enough?

Step 2 - Class Level Premium Rate Setting

Cost Allocation to Class vs. Employer

- Each class stand on its own with no pooling of costs (such as new claim costs (NCC), bad debts and gains and losses, etc.) from other classes or from Schedule 1, based on the class' NCC for the most recent completed year, subject to a transition plan.

- At the employer level, a period of six years of claims experience would be utilized for premium rate setting purposes.

Unfunded Liability

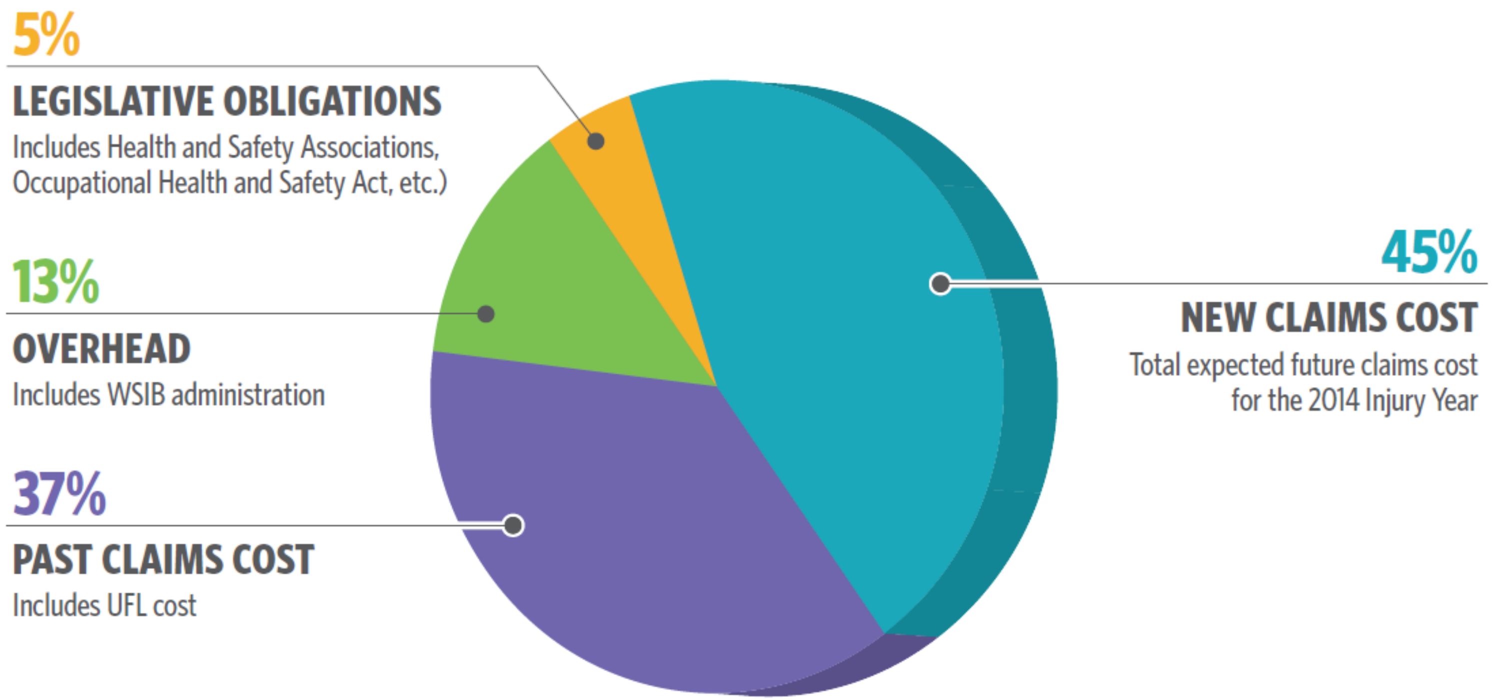
- Though new methods of apportioning the UFL were examined and evaluated, considering revenue neutrality, it was determined that this could significantly impact the distribution of UFL charges to each class and employer, and their therefore premium rates.

- <u>Proposal for Consultation:</u> Utilize the NCC methodology to allocate the UFL.

- The NCC methodology apportions the UFL to the various industry classes based on their proportionate share of new claims costs across Schedule 1. This methodology was utilized by the WSIB to apportion the UFL prior to the more recent premium rate freezes and across the board rate changes.

Step 2 - Class Level Premium Rate Setting Overview

- Similar to the current approach, the WSIB would use four components to determine the class average rate for the proposed 22 industry classes.
- 2014 Premium Rate Components:



Step 2 - Class Level Premium Rate Setting Guide for Stakeholder Consultation

Alternatives for further discussion	Example Questions for Consultation
• Threshold for claim costs limit at an employer level, above which the costs are allocated to the class. • Whether each class ought to be self-sufficient or supported by other classes in Schedule 1. • Period of time (e.g. # of years) to consider claims experience for rate setting purposes. • Allocation of claim costs at the class vs. the employer level (LLOD, SIEF, inactive employers). • Proposed approach to allocate the UFL at the class level.	• Should LLOD claim costs be shared equally by all employers as a collective cost or should these costs be charged directly to the individual employer? • Given the design elements of the proposed preliminary Rate Framework that promote greater stability in premium rates, as well as the current legal landscape on disability issues, is the SIEF policy as it is currently designed still relevant? • How should the WSIB handle catastrophic new claim costs situations that occur in a particular class?

Step 3 - Employer Level Premium Rate Adjustment

Risk Profile and Actuarial Predictability

- The preliminary Rate Framework would replace the current experience rating programs (NEER, CAD 7 and MAP), with an Employer Level Premium Rate Adjustment that prospectively sets rates.
- The proposed model includes the 59% of employers (i.e. small employers) currently ineligible for any experience rating.
- An employer's risk profile would be determined by looking at its claims costs and insurable earnings. All employers would be placed into a risk band based on the risk that they present to the system, considering the predictability of their claims experience.
- Graduated Per Claim Limit: This graduated approach is based on an employer's actuarial predictability and is intended to address the current rate group level per claim limit that is overly burdensome for small employers.
- Predictability Scale: An employer's actuarial predictability would determine the extent to which their premium rate is affected by their claims experience, providing further protection for small employers.

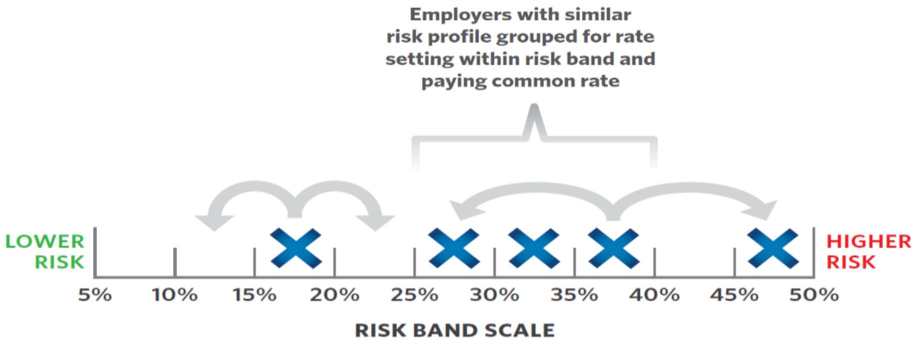
Predictability Scale (%)	<= 2.5	2.5 - 5.0	5.0 - 10	10 - 20	20 - 30	30 - 40	40 - 50	50 - 60	60 - 70	70 - 80	80 - 90	90 +
Individual Experience for Premium Rate Setting (%)	2.5	5.0	10.0	20.0	30.0	40.0	50.0	60.0	70.0	80.0	90.0	100.0
Collective Experience for Premium Rate Setting (%)	97.5	95.0	90.0	80.0	70.0	60.0	50.0	40.0	30.0	20.0	10.0	0.0

Step 3 - Employer Level Premium Rate Adjustment
Risk Banding

- Each employer would see adjustments from the Class Target Premium Rate based on the risk that they specifically bring to the system (after taking into consideration each employer's historical claims experience and actuarial predictability) up to +/- 3 risk bands year over year, relative to the performance of their class.

- The proposed risk bands are hierarchical series of divisions within each class (premium rate increments of 5%). Each division represents a different level of risk where employers that share a similar individual risk profile would be grouped relative to the Class Target Premium Rate.

- Each Industry Class would have between 40 and 83 risk bands (approx. 1550 for all of Schedule 1) to provide employers with a significant range or premium rates, based on the risk they specifically represent to the system and the risk disparity in each class.



Step 3 – Employer Level Premium Rate Adjustments Guide for Stakeholder Consultation

Alternatives for further discussion	Example Questions for Consultation
• Level of actuarial predictability for individual employers, including implications for small employers and the treatment of new employers. • The use of risk bands versus individualized rates for each employer. • Appropriate number, increments, size, and movement of risk bands. • Premium rate limits that act as a threshold for surcharging an employer, or further collective liability at the class level. • Appropriate starting point for employers to move from the current system to the proposed preliminary Rate Framework for transition purposes. • Potential for a surcharge employers with disproportionate claims costs relative to their class and/or a significant gap in reaching Target Rate.	• In setting employer level premium rates, what are the factors that the WSIB should consider in assessing the level of protection an employer needs from large rate fluctuations? • Are risk bands that are set at 5% increments appropriate? Should the percentage increments be larger? • Does the introduction of experience adjusted premium rates for small employers, currently excluded from the existing WSIB experience rating programs, introduce too much premium rate sensitivity. • Does a three risk band limitation, relative to the experience of the class, provide suitable stability? Considering that this limitation itself leads to greater collective liability, should the limitation be higher? Should it be lower?

Commitment to Health and Safety

- The proposed preliminary Rate Framework would act as an early warning for employers by providing target premium rates allowing employers to; better identify the future projected path of their premium costs; and take proactive health and safety actions (e.g. prevention and return to work (RTW)) to address the risks.

- Employers could see premium rate implications as a result of:
  - A transition to a more responsive Rate Framework;
  - A significant gap between their historical rates in the current system and their new Target Premium Rate;
  - A sustained performance trend leading to a significant increase in their risk profile; and
  - A risk profile that is disproportionate to their respective industry performance.

- New and enhanced risk reduction support services (focusing on RTW and Prevention) are delivered by the WSIB's Workplace Health and Safety Services function and other Occupational Health and Safety partners (including the Ministry of Labour, the Chief Prevention Officer and the Health and Safety Associations).

- These services would be most helpful in assisting employers who have a particular interest in reducing their claims experience performance trends that have lead to high premium rates.

- The design of the proposed preliminary Rate Framework could accommodate other health and safety initiative or programs (Ministry of Labour / Chief Prevention Office).

Transition Planning – Key Considerations

- The transition to any new Rate Framework, the introduction of employer target rates, and the elimination of the unfunded liability are linked components to the WSIB developing a system that is fair, simple and equitably shares the costs amongst the participants.

- The following considerations would form the basis for adopting an approach to transitioning employers to their Employer Target Premium Rate:
  - Gradual, incremental movement towards Class Target Premium Rates;
  - Utilizing the decreasing/eliminated UFL to support movement towards Employer Target Premium Rates;
  - Balance between degree of premium rate increases and decreases;
  - Gradual, incremental movement towards Employer Target Premium Rates; and
  - Consideration for economic circumstances and potential legislative amendments.

- The WSIB continues its analysis and will engage stakeholders to consider a reasonable transition path to ensure employers can gradually adjust to any new rate setting process.

The WSIB wants to hear from you!

For further information visit

www.wsibrateframeworkreform.com

Or email us at consultation_secretariat@wsib.on.ca