Proposed Preliminary Rate Framework

Technical Session

June, 2015

Purpose of This Session

- The WSIB appreciates that you may have questions about what is being proposed, and how this may affect you and your company. Our aim is to ensure you understand, at a level that you believe is necessary, and have every opportunity to ask the important questions that matter to you.

- We have received questions in advance of this session that have either shaped the context of the presentation or have been embedded within the slides. Questions that have not been specifically addressed in this session will receive a response. The Q & A on our website will be updated coming out of the technical sessions.

- The purpose of today’s session is to provide you with an opportunity to obtain a deeper level of understanding of how the proposed preliminary Rate Framework would work, and the analysis that led to some of its key features. Given the broad audience we have participating today, we will not be getting into specific industry and employer outcomes and questions.

- Starting in May, the WSIB will be conducting Working Group Sessions where stakeholders will have an opportunity to ask industry specific questions.

- In addition, the WSIB is prepared to provide you with additional support to help individual stakeholders or representative groups or associations better understand what is being proposed.

- For more information about how to participate in the Working Group sessions or for more information, please email us at consultation_secretariat@wsib.on.ca.

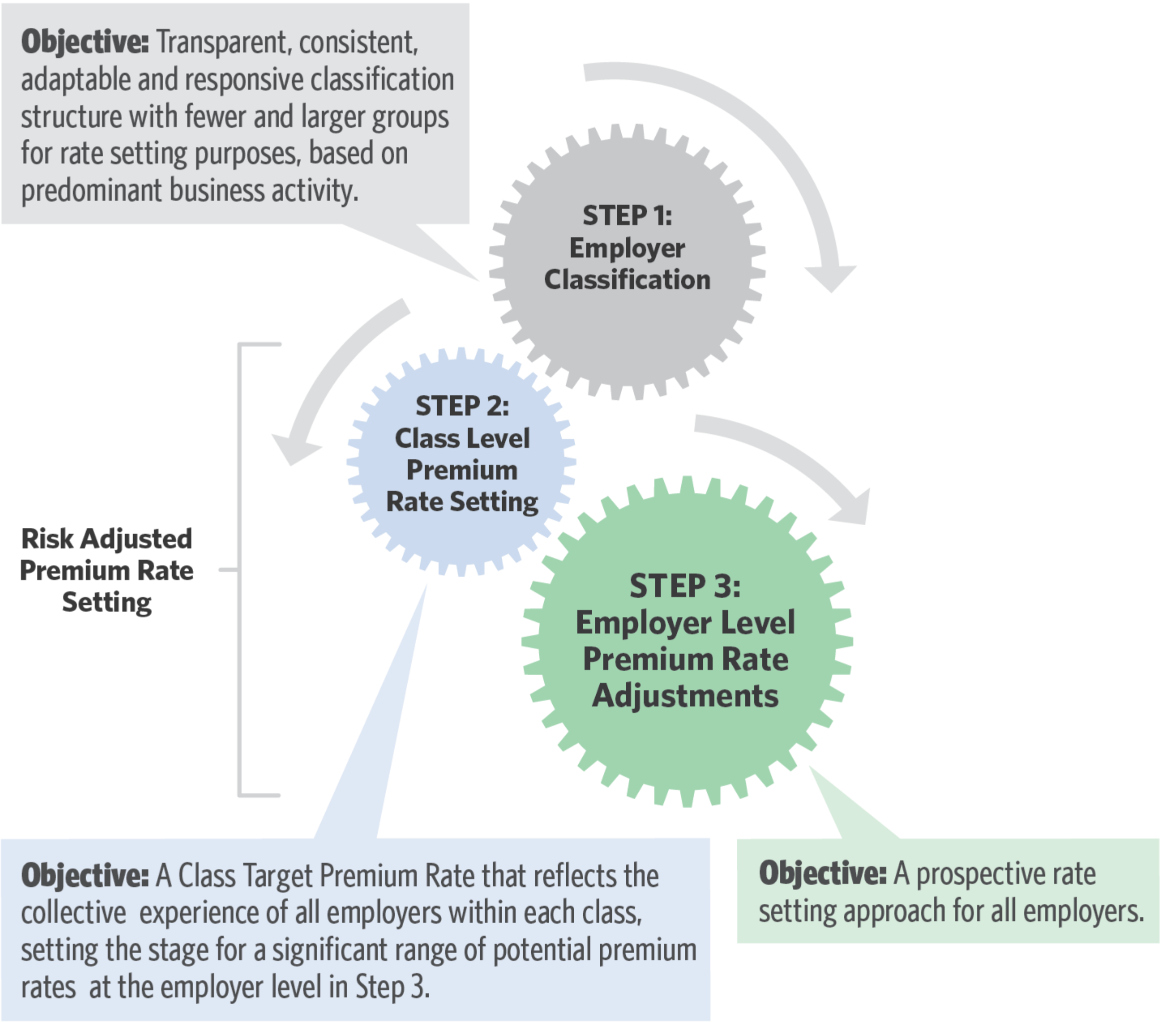
Revenue Neutrality as a Foundation

- The proposed preliminary Rate Framework represents a plausible working model that aims to address fundamental issues raised by stakeholders, partners and the WSIB itself, with the current employer classification structure and premium rate setting processes.

- The adoption of a new classification structure and prospective Risk Adjusted Premium Rate process would not affect the total amount of premium dollars collected by the WSIB, thereby remaining revenue neutral.

- However, a new system would, in a reasonable and gradual manner, shift the distribution of premiums among individual employers based on their claims experience, while ensuring that employers are paying their fair share of workplace coverage.

Proposed Preliminary Rate Framework: Three Step Approach



Step 1 – Employer Classification

Objective: Transparent, consistent, adaptable and responsive classification structure with fewer and larger groups for rate setting purposes, based on predominant business activity.

North American Industry Classification System – Overview

- 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).

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)

- The NAICS is a hierarchal industry classification system developed by the statistical agencies of Canada, Mexico and the United States. It replaced the SIC system in 1997, and is refreshed to reflect the changing landscape of the North American economy every five years.

- The current version of NAICS was updated in 2012, with any revisions being contemplated in an expected 2017 version.

- The majority of employers currently have a single NAICS number, and some may have multiple NAICS numbers. For filing with the Canada Revenue Agency, a singular NAICS number is identified for their entire operation.

Proposed Classification Structure

- Simple and understandable classification structure generally based on North American Industry Classification System 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

North American Industry Classification System - 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.
- Link to Statistics Canada website on NAICS – Click Here

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

How NAICS is Different from SIC?

- Reviewing the classification of employers utilizing NAICS vs SIC codes showed that the proposed NAICS-based classification will group certain types of industries differently.
- Shifts from one class to another class have certain Construction sector specific impacts given the WSIA includes certain obligations that are unique to the sector (Bill 119 and return to work re-employment provisions in Regulation (O.Reg.35/08)).

CURRENT CLASS	FINDINGS
Class A	Almost 90% of insurable earnings in the Class A, Forest Products, would more appropriately fit into the proposed Resource and Related Manufacturing class; 9.7% would be move into the proposed Primary Resource Industries class.
Class B	90.0% of Class B, Mining and Related Industries, would move to the proposed Primary Resource Industries class; the remainder would move to Specialty Trades – Construction (2.5%), and to Resource and Related Manufacturing (4.6%).
Class C	60.8% of Class C, Other Primary Resources, would shift to the proposed Primary Resource Industries class; 29.4% would move to the proposed Administrative, Waste and Remediation class.
Class D	Class D, Manufacturing, would be primarily split between three proposed classes: Food, textile and Related Manufacturing ((13.9%), Resource and Related Manufacturing (21.8%), and Machinery and Other Manufacturing (56.8%).
Class E	Class E, Transportation and Storage, would primarily map to the proposed Transportation and Warehousing class (82.0%), but some 11.3% would move to the proposed Administrative, Waste and Remediation class.
Class F	The Class F, Retail and Wholesale Trades, would map to proposed three classes: Wholesale Trade (30.1%), General Retail (39.9%) and Specialized Retail and department stores (14.5%); while 8.4% would move to Other Services.
Class G	Construction, would be primarily split between three proposed classes: Building Construction (16.0%), Infrastructure Construction (10.0%) and Specialty Trades – Construction (64.4%).
Class H	The Class H, Government and Related Industries, would be split primarily between four proposed classes: Utilities (8.6%), Public Administration (18.5%), Health and Social Services (27.7%), Hospitals (34.9%) and Education (5.9%).
Class I	Class I, would move to a number of new classes, Primarily a new Professional, Scientific and Technical class (27.2%), Leisure and Hospitality (25.4%), followed by Administrative, Waste and Remediation (19.3%), Finance (8.4%) and Information and Cultural Industries (7.2%) and Other Services (6.9%).

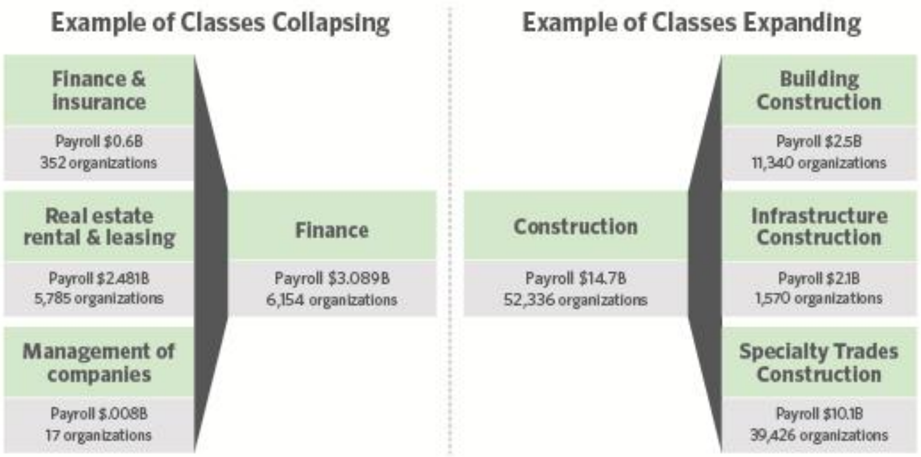
e.g. Paper bags & consumer products, particle board, shingles - move to manufacturing

e.g. Barn cleaning, lawn maintenance - moving out of Primary Resources

e.g. Asbestos abatement & window cleaning - moving out of construction

North American Industry Classification System - Adaptation

- The proposed classification structure is adapted from the NAICS to suit Ontario's workers' compensation system and Ontario's unique economy.
- **Actuarial Predictability** is a measure of the degree to which past claims cost can be relied upon to predict future outcomes and therefore fairly set premium rates.
- The actuarial predictability of a class was determined at a preliminary insurable earnings threshold of $2 billion. This provides a level of stability that can be relied upon to predict future outcomes, and therefore fairly 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.



Does Risk or Claims Experience Associated with the Sub-Industries and Employers get Considered in these Groupings?

- Under the current classification system, employers are classified in the 155 Rate Groups based on their business activity with no consideration of the risk or claims experience of sub industries or individual employers within the groups. In this current system, this is problematic because employers actually pay a premium rate associated with this group and their diverse experience and activities, subject to retrospective experience rating adjustments for some.

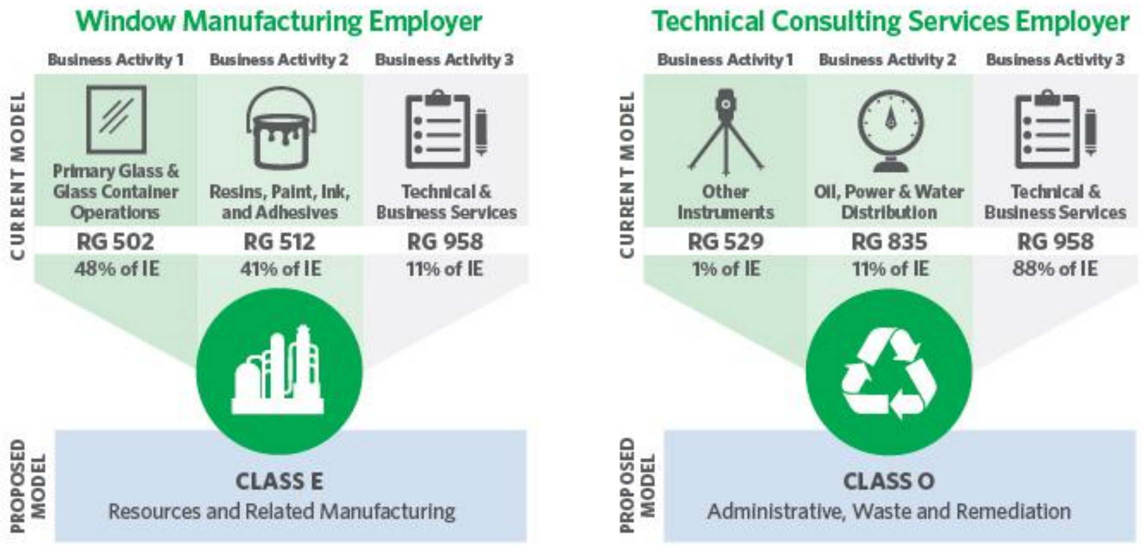
- The classification structure that is being proposed currently does not account for the claims experience of sub industries within the group, but there is a fundamental difference...employers do not pay this group rate, they pay a premium rate that better reflects their own individual experience.

- The WSIB recognizes that there could be a level of risk disparity within the proposed 22 Industry Classes. The proposed risk band approach (that increases the # of risk bands counter the disparity that may exist and is detailed further in the presentation) will address these concerns.

- That said, the WSIB continues to review the classes to determine if further expansion would produce improved outcomes, and is specifically seeking stakeholder feedback to determine if risk or claims experience of sub-industries ought to be considered at this stage of the Rate Framework.

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.
- For premium rate setting purposes, 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.



How will Predominant Business Activity be Determined when a Company has Multiple Rate Groups?

- An employer would be classified based on their predominant industry class (one of the 22 industry classes being proposed) and not based on their current predominant Rate Group or Classification Unit.

- This means that, while an employer's insurable earnings could be identified at the more granular 6-digit level of NAICS, the total earnings would be aggregated to the 22 industry classes that are being suggested in the proposed preliminary Rate Framework.

- For the overwhelming majority of employers, all of their business activities (even if they have multiple rate groups in today's system) will fall in one singular industry class, or a clearly predominant industry class.

- In few cases (approximately 5%), an employer's business activities would fall under two or more classes. Of this group, the majority of employers have a clear predominant business activity.

Business Activity Rules

- The classification of employers according to their predominant class requires changes to O. Reg. 175/98, as well as to the related policies, to amend the provisions that address the process by which an employer's premiums may be calculated when an employer engages in multiple business activities.
- The term "business activity" is currently defined in O. Reg. 175/98, as an operation that relates to the production of a product or the provision of a service and includes the work done by domestic workers.
- Similarly to the current system, an ancillary operation would be considered part of an employer's business activity or activities – not a business activity in its own right, unless it produces a product or provides a service that is not for the employer's own use.
- Where an employer engages in both compulsorily covered and non-compulsorily covered business activities, the employer would be classified according to their predominant compulsorily covered business activity at the class level.
- Where an employer begins a new business activity or discontinues a business activity, and this change would result in a class change, the WSIB would consider a potential change in classification, to reflect the immediate changes made by an employer.
- Where an employer does not begin or discontinues a business activity (i.e., only their insurable earnings have changed), the WSIB would consider this information for potential reclassification for the following premium year.

What This Means for Employers

- Under the proposed classification structure, the WSIB would continue to classify employers according to business activities.

- As in today's structure, the employer would be required to report any changes to their business activities or to their insurable earnings.

- Employers that engage in a single business activity and therefore currently report all of their insurable earnings under a single CU, would not be impacted by the predominant class rules. Their new classification would be mapped to a single class, based on the proposed 22 class structure.

- Employers that currently report earnings under multiple CUs according to different business activities would continue to identify all of their earnings to the WSIB.

What Time Period of Insurable Earnings would be Considered to Determine Predominant Business Activity?

- To transition existing employers with one or more WSIB accounts to the new classification scheme, the WSIB would determine which class an employer would belong to based on a rolling three years of insurable earnings information.

- For example, to determine the classification for the 2014 premium year using the proposed preliminary Rate Framework, the WSIB would review the information from the three prior years, 2010 to 2012.

- In arriving at this approach, the WSIB first considered using six years worth of information but found that this led to some employers being classified based on a high payroll business activity they might have ceased. Reducing the review period to three years provides a more consistent outcome

- For new employers registering for the first time after a new classification structure is implemented, they would inform the WSIB of their business activities, as is the case today. In addition they would need to identify and if required, demonstrate their predominant class to the WSIB.

Temporary Employment Agencies

- The proposed preliminary Rate Framework recommends that TEAs and their host employers would need to be classified in the same class in order to ensure the premium rates are linked to the host employer.
- That means TEAs that have multiple clients in a single industry class would have an account for that class. If a TEA had clients in multiple industry classes, then they would have an account for each.
- TEAs are expected to pass along their premium costs to client employers as part of their fee. If TEAs and client employers have similar premium rates, there would be minimal financial incentive for client employers to use TEA workers to avoid premium costs. This approach would most closely resemble the premium cost the host employer would have paid if they were hired directly.
- To allow TEAs and host employers to be classified in the same class:
  - The WSIB would seek to amend Schedule 1 of O. Reg. 175/98 under the WSIA to indicate that supply of labour to a class (regardless of what activities are performed) is considered a business activity of that class, which is currently the case but for only some rate groups; and
  - TEAs would be allowed to have a separate class linked to each class they supply, in addition to a class for their own operations excluding supplied labour.

Step 2 – Class Level Premium Rate Setting

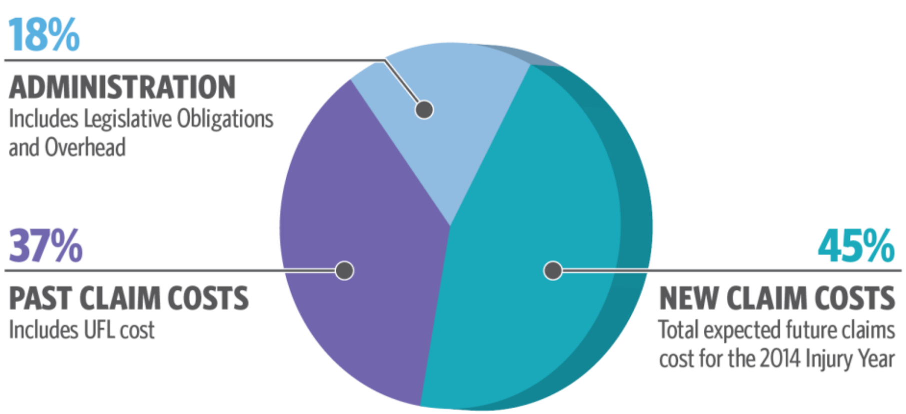
Objective: A Class Target Premium Rate that reflects the collective claims experience of all employers within each class, setting the stage for a significant range of potential premium rates at the employer level in Step 3.

Step 2 - Class Level Premium Rate Setting Overview

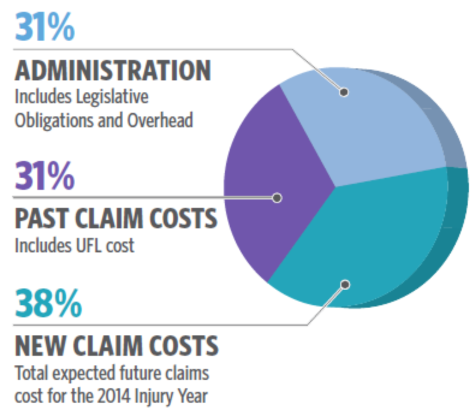
- Similar to the current approach, the WSIB would use three components to determine the class average rate for the proposed 22 industry classes.

- The distribution of costs is distinct for each industry class. Below, the Schedule 1 and two specific industries have been identified as examples. Components:

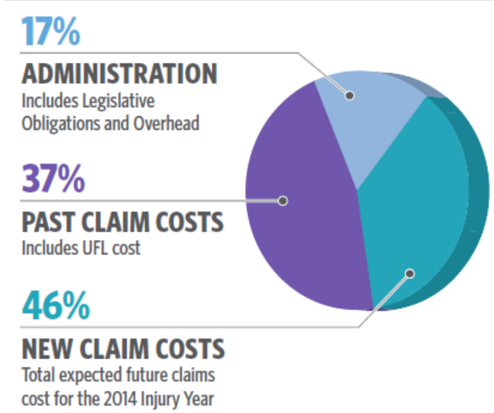
Schedule 1



Class L: Information and Culture



Class E: Resources and Related Manufacturing



New Claims Cost & Administration Cost: Allocation at the Class Level

New Claim Costs

- The proposed preliminary Rate Framework seeks to continue the current methodology for estimating the new claim costs amount required at the Schedule 1 level and incorporate a graduated per claim limit at the class & employer level. This graduated per claim limit provides a significant benefit in the form of insurance protection for smaller employers who would otherwise be subjected to greater premium rate volatility.

Predictability Scale	2.5%	5%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Current RG method	2.5 times the maximum insurable earnings ($84,100) or $210,250											
Proposed Graduated Per Claim Limit Approach	0.5 times maximum IE ($84,100) or $42,050		2.5 times maximum IE ($84,100) or $210,250				5 times maximum IE ($84,100) or $420,500				7 times maximum IE ($84,100) or $588,700	

- Like the current system, the WSIB would determine what the expected lifetime costs would be to pay for all the new claims that will occur in the upcoming fiscal year.

Administration Costs

- The proposed preliminary Rate Framework recommends continuing the current allocation of the administration components of the premium rate, whereby, each class is allocated their share of these costs in equal proportion to their new claim costs and insurable earnings.

Past Claims Cost

- 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 & employer, and their premium rates.

Previous Methodology – the NCC Methodology (Since 1999)

- 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.

Current Methodology – the Remainder Methodology (Recent Changes)

- This methodology has recently been changed given the WSIB has taken an 'across the board' approach to setting rates. With rates frozen for the past few years, or moving at a set %, the UFL share has been determined by substrating the NCC and Administrative costs from the set premium rate, and allocating the remainder to the UFL.

Proposal for Consultation: Revert to the NCC methodology to allocate the UFL.

Will the WSIB Implement the New Rate Framework Before the UFL is Paid Off?

- At this stage, the WSIB is consulting on the proposed model and a specific implementation date has not been determined. From this engagement, and further discussion with stakeholders on any potential transition, a path forward would be determined towards the elimination of the UFL.
- Given the WSIB's current financial progress, the UFL may be significantly reduced when a new Rate Framework is ready to be implemented.
- This would result in reducing the impact of the UFL on any transition towards target premium rates and the varying outcomes that come from considering a different approach.

Long Latency Occupational Disease

- The proposed preliminary Rate Framework is based on continuing with the current assignment of LLOD claims as a collective cost that is pooled at the class level.
- As these costs are excluded from being considered under the current three experience rating programs, likewise, they would continue to be excluded from the claims experience of individual employers under the Risk Adjusted Premium Rate Setting process.
- Similar to the current system, employers who do not incur LLOD claims may feel it is unfair to be charged for these costs as part of the new claim costs component of the premium rate.
- In other classes, where these types of injuries are more prevalent, it may mean that a larger portion of these costs would need to be included in the new claim costs component of the premium rate.
- Certain industries or individual employers who experience LLOD claims may have implemented health and safety practices (at considerable expense) to significantly reduce the likelihood for these types of claims to occur. These employers or industries may feel it is unfair to pay for a component of the premium rate that incorporates claim costs for other employers who choose not to implement equivalent health and safety practices.
- **As a result, the WSIB is looking for your input on whether these costs should continue to be borne by all employers in an industry, or if the claims costs associated with LLOD claims ought to be charged directly to the individual employer.**

Second Injury and Enhancement Fund

- The objective of the SIEF policy is to create an incentive to employ injured workers by providing financial relief to employers when a pre-existing condition enhances or prolongs a work-related disability.

- In the current system, SIEF relief provided to individual employers is included as part of the total claims cost of the rate group in setting the rate group's premium rate, i.e. the cost is shared among all employers in the group.

- The proposed preliminary Rate Framework seeks to discontinue the SIEF program as part of a prospective premium rate setting approach since the program no longer effectively works to increase employment of injured workers and causes distortions among employers in a group

- The SIEF program is connected to the experience rating programs as it reduces the actual claims costs that are used as a basis for the calculation of refunds and surcharges. These experience rating programs will be eliminated with the adoption of the proposed prospective rate setting approach.

- Alternative mechanisms (outside cost relief) have been suggested to better address the original objective of the SIEF policy. The combination of consistent claims adjudication that appropriately considers the contributing nature of a pre-existing condition and rate stability measures within the proposed preliminary Rate Framework removes the cost relief justification for the SIEF program.

Self-Sufficiency of Classes

- The proposed preliminary Rate Framework recommends that each class stand on its own with no pooling of costs from other classes or from Schedule 1, based on the class' NCC for the most recent completed year, subject to a transition plan.

- Self-sufficiency of classes will ensure that the collective class experience reflects a single industry class, instead of being a mix of several such classes.

- As a recent example, in setting the 2015 premium rates, the premium rates for Rate Group 845 Local Government Services were increased.

  – The premium rate increase was due to the addition of six additional cancers for firefighters, including the impact of retroactive claims from January 1, 1960 to the present, as required by legislation. The increase took into consideration the possibility of new claims in the future and the application of expanded coverage to full-time, part-time and volunteer firefighters and fire investigators.

Class Target Premium Rate

- **Class Target Premium Rate** is a premium rate based on the collective experience of all employers within a respective class, their allocation of administrative costs, and apportionment of the past claim costs for each class in Schedule 1.
- The preliminary Class Target Premium Rates are based on the expected claim costs and insurable earnings experience for 2014, in order to project what the premium rates would be under the proposed preliminary Rate Framework methodology.
- The proposed model would recognize shifts in class cost experience, and lead to updated premium rates to reflect these changes in costs.

Risk Disparity

- In analyzing each of the 22 classes, the WSIB noted that while each class may have some level of risk disparity (employers bringing a different claims experience relative to the class), addressing this risk disparity cannot be done at the expense of minimizing the actuarial predictability for each class.

- The actuarial predictability of each class is necessary in order to be able to calculate a premium rate that mitigates significant levels of volatility.

- To address potential concerns that the proposed 22 industry classes needed further subdivision given the risk disparity, the proposed preliminary Rate Framework incorporates a varying number of risk bands in each class and allows the system to fairly assess individual employer-level claims cost variability in the rate charged (e.g. there are over 1500 risk bands within Schedule 1, with each class ranging from approximately 40-80 based on the risk disparity).

- As previously indicated, the WSIB continues to review the classes to determine if further expansion would produce improved outcomes, and is specifically seeking stakeholder feedback to determine if risk or claim experience of sub-industries ought to be considered at this stage of the Rate Framework.

Break

Step 3 – Employer Level Premium Rate Adjustments

Objective: One prospective rate setting approach for all employers, acting as an early warning for employers with premium rate implications, supporting their efforts aimed at improving health and safety outcomes.

Overview of Working Model

- In order to ensure that the proposed preliminary Rate Framework achieves the Key Goals, the WSIB developed a working model that utilizes enough data to be able to determine the impacts to employers from a premium rate perspective

- Using the proposed preliminary Rate Framework methodology, the WSIB generated the 2014 employer premium rates so employers would be able to understand the Class Target Premium Rates that were created.

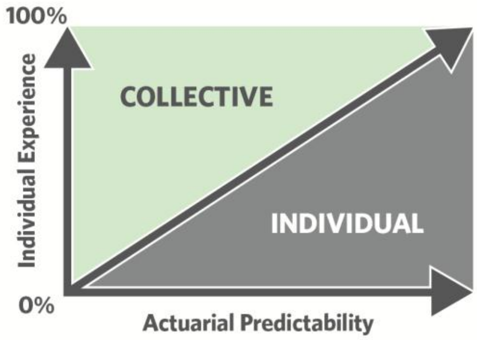
- In determining the right balance between premium rate responsiveness and premium rate stability or individual employer and collective responsibility, the WSIB reviewed the accident cost and insurable earnings history for the 2007 – 2012 periods for Schedule 1 employers, with each period using a six year window (e.g., 2007 to 2012; 2006 to 2011, etc.).

Actuarial Predictability

- **Actuarial Predictability** is a measure of the degree to which past claims cost can be relied upon to predict future outcomes and therefore fairly set premium rates.

- To undertake employer-level adjustments, an employer's actuarial predictability, would determine the extent to which their premium rate should be affected by their own individual claims experience versus the collective experience of their respective class.

- Predictability Scale: is an extension of Stanley's concept that provides a greater level of individual employer experience with greater actuarial predictability, and greater insurance protection for employers with less predictability.

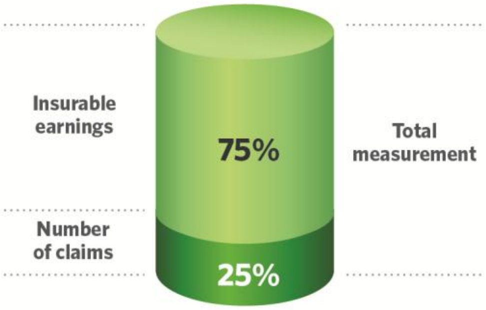


Predictability Scale (%)	<= 2.5	2.5 - 5.0	5.0 - 10	10 - 20	20 - 30	30 - 40	40 - 50	50 - 60	60 - 70	70 - 80	80 - 90	90 +
Individual Experience for Premium Rate Setting (%)	2.5	5.0	10.0	20.0	30.0	40.0	50.0	60.0	70.0	80.0	90.0	100.0
Collective Experience for Premium Rate Setting (%)	97.5	95.0	90.0	80.0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

Actuarial Predictability

- After evaluating the various alternatives to establish the appropriate level of risk (how much of their own claims experience would an employer be responsible for) or protection (what level of protection they need from large fluctuations in premium rates) to assign to employers, the WSIB measured the actuarial predictability of employers based on two components: insurable earnings and total number of claims.

- The WSIB is proposing that an employer’s actuarial predictability be weighted 75% based on a actuarial predictability standard of $1B of insurable earnings, and 25% based on an actuarial predictability standard of 1200 claims, over a six year period.

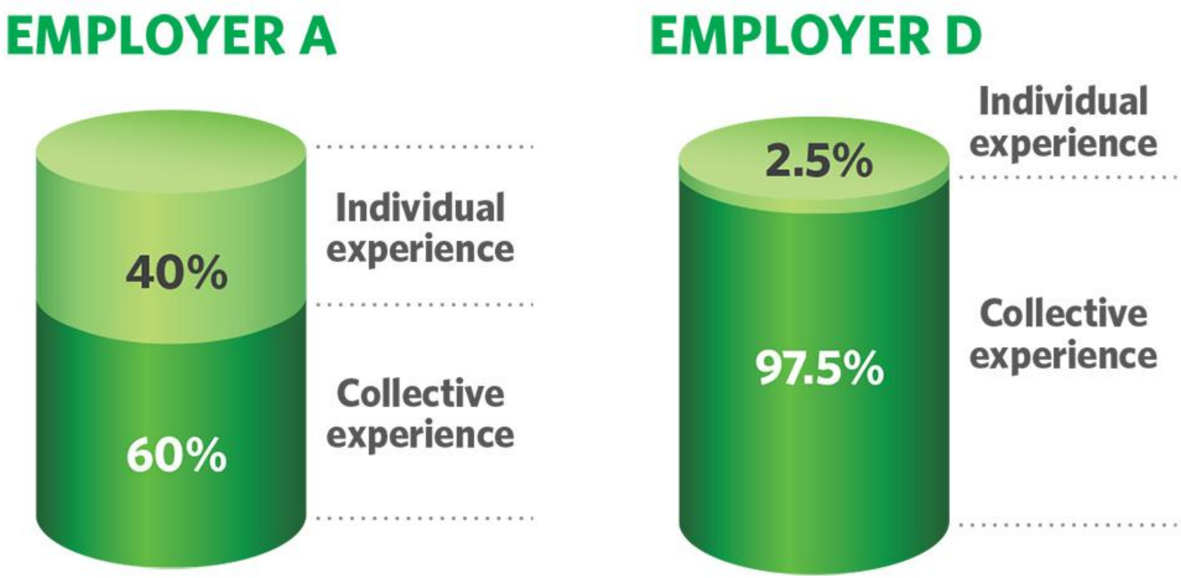


What else did the WSIB Consider when Determining Actuarial Predictability?

- To determine an appropriate predictability factor (amount of collective and/or individual weight) to apply to employers, the WSIB evaluated a number of options. The following options were also reviewed as part of the WSIB's analysis (this list is not exhaustive):
  - the WSIB's current measurement of actuarial predictability (a RG is credible if it has more than 400 lost time injury claims or 12,000 times the maximum insurable earnings of the rate year);
  - assessing employers on only one criterion such as insurable earnings or lost time claims; and
  - evaluating employers in combinations such as insurable earnings with claims costs, lost time claims or number of claims by applying different weights on the criteria, for example, using: 75% insurable earnings with 25% claim costs;
    - 75% insurable earnings with 25% lost time injuries;
    - 50% insurable earnings with 50% claim costs;
    - 50% insurable earnings with 50% number of claims (1,000);
    - 25% insurable earnings with 75% claims costs; and
    - 25% insurable earnings with 75% number of claims (1,200).

Step A: Determining an Employer's Actuarial Predictability

In Step A, two employers are used to demonstrate what factors the WSIB considers when determining an employer's actuarial predictability.



# claims	127
IE/6yrs	$108.95 M

# claims	0
IE/6yrs	$0.655M

wsib ONTARIO

Claims Cost Limits

- In order to assign responsibility/accountability to employers for their claims costs, the use of a per claim limit ensures that premium rate adjustments do not overly charge employers for having a single extremely high cost accident. It also helps to minimize premium rate fluctuations and provides premium rate stability for employers, especially in those circumstances when a catastrophic claim occurs.
- The graduated per claim limit increases with increasing predictability, so that small employers (who are in the lower predictability scales) would have a lower per claim limit and would be less individually accountable for the claim costs that they incur (with the remainder of the costs being pooled at the class level).
- The WSIB is recommending the implementation of a graduated per claim limit that changes based on an employer's predictability. A graduated per claim limit offers more protection for small employers who may have that one large claim, as opposed to large employers, who may be better positioned to absorb a claim that carries the same cost or a higher cost.

Predictability Scale	2.5%	5%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
Current RG method	2.5 times the maximum insurable earnings ($84,100) or $210,250											
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New Employers

- The proposed preliminary Rate Framework seeks to ensure that all new employers take part in the Risk Adjusted Premium Rate Setting process as soon as possible.
- A minimum of 12 months of claims experience would be necessary to obtain sufficient information to determine the level of accident cost and insurable earnings information required to calculate an employer's risk profile.
- This contrasts against the current requirements for the current experience rating programs:

NEER	For NEER, a firm needs to be in operation for a minimum of one prior year in order to be experience rated. As long as the firm has a premium rate prior to Feb 1st of the prior year, and same premium rate on Dec 30 of the prior year, then they are eligible to receive the NEER refund/surcharge in the current year. As the firm matures, each year is independent of the others. The WSIB shows up to five years on one statement (current year plus four prior) and the rebate/surcharge is the net total of all review years.
CAD 7	For CAD 7, the firm needs to be in operation for minimum of one prior year. As long as the firm had a premium rate prior to Feb 1st of the prior year, and same premium rate on Dec 30 of the prior year, then they are eligible to receive the CAD 7 refund/surcharge in the current year. As the firm matures, CAD 7 has a five year window on costs, but the calculation is based upon a 2 year average, (of costs and frequency), so the costs get blended in under this program.
MAP	To receive a premium rate increase, a firm needs to be in operation for part of the prior three years and have either more than 1 claim in excess of $500, or one claim in excess of $5,000 or a fatality. As the firm matures, the review window expands up to three years.
	To receive a premium rate discount, a firm needs to be in operation for the full three prior years with no break in coverage, and no claim in excess of $500, $5,000 or fatality to receive a premium rate discount. As the firm matures, the review window expands up to three years.

Employer Costs Above the Threshold

- To ensure the Employers Target and Actual Premium Rate does not increase beyond a specific limit that would be unreasonable for an employer to pay, the WSIB would set a maximum premium rate that would not exceed about three times the Class Target Premium Rate. (Costs above the threshold are shared and recovered in the premium rate at the class level).

- Below this ceiling, employers would be accountable/responsible for sustained poor claims experience, by paying up to about three times the Class Target Premium Rate, subject to the annual three risk band limitation relative to their class, noted above.

- For those employers that might find themselves above the ceiling on a sustained basis, (something that would represent a small percentage of employers (0.6% or about 1,600 organizations)), a determination on what to do with those costs above the threshold is required. These costs are shared and recovered in the premium rate at the class level.

Should the WSIB Consider a Surcharging Mechanism for Certain Employers?

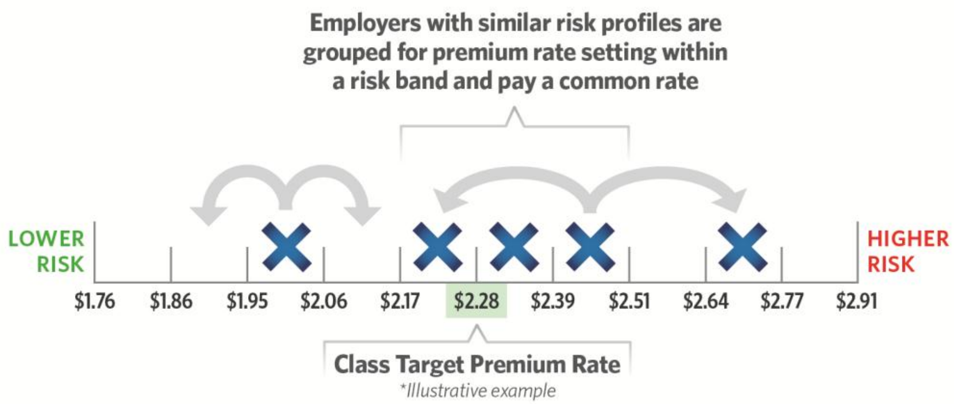
- As part of the proposed preliminary Rate Framework, the WSIB would cap Employer Level Premium Rate Adjustments up to about three times the Class Target Premium Rate.
- This measure would limit an employer's risk band movement each year and protect the employer from unexpected catastrophic claim costs in a specific year.
- However, there may be employers that have high and disproportionate claim costs relative to their class, year over year.
- Additionally, the gap between what they are actually paying in premium rates and what they should be charged may be significantly different. As such, it may make sense to assign these employers some additional accountability for their consistently poor behavior.

Risk Banding

- **Risk Bands** are hierarchical series of divisions within each class. Each division represents a different level of risk where employers would be placed relative to the Class Target Premium Rate. In each class, risk bands are subject to limitations, such as the premium rate of the minimum risk band ($0.20), and the maximum risk band will not exceed about three times the Class Target Premium Rate. Each risk band represents approximately 5% increments in premium rate.

- The WSIB assessed a number of cases where an employer had a small difference in their risk profile that would generate a premium rate change of 10% from one year to the next and determined that it did not make sense to charge an employer a 10% increase or provide them with a 10% decrease when there was only a small change in their risk profile.

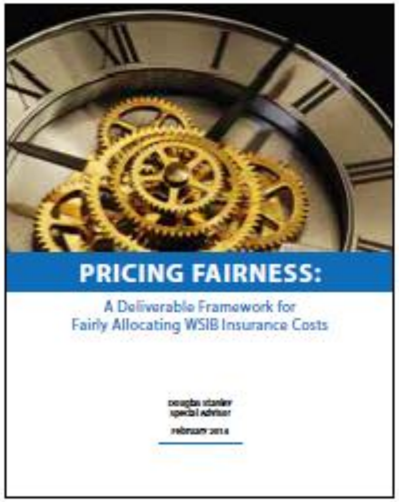
- As such, the WSIB developed a new approach to handle these types of employers by creating risk bands that were in 5% increments between each risk band.



Risk Banding Step B-I

- The following slides delve deeper into the actuarial information required to complete the Employer Level Premium Rate Adjustments. In his final report, Douglas Stanley used the analogy of a clock to describe the Integrated Rate Framework. The actuarial formulas provided in the subsequent slides form the foundation of Step 3, Employer Level Premium Rate Adjustments of the proposed preliminary Rate Framework.

- Using the employer examples presented in Step A that discussed actuarial predictability, the following Step (B – I) shows how an employer would be risk banded, and how their Employer Target and Actual Premium Rate would be calculated.



Step B: Determining an Employer’s Total Claims Cost

For each employer, the WSIB would review all of the claims costs that occurred over a rolling six year period. This means that for the 2014 premium year, for example, the WSIB would use 2007 to 2012 injury years.

Six year window including claim costs from Jan 1, 2007 to Dec 31, 2012						
	Incurred claim costs paid by year					
Injury year	2007	2008	2009	2010	2011	2012
2007						Total claim costs
2008						
2009						
2010						
2011						
2012						

EMPLOYER A

Claims Cost – $0.5461M

EMPLOYER D

Claims Cost – $0M

Step C: Determining an Employer's Insurable Earnings

In Step C, the WSIB would then obtain the insurable earnings for the same six year period (up to each year's annual maximum earnings) for each employer, as they were recorded for the reporting and payment of premiums.

Six year window including insurable earnings from Jan 1, 2007 to Dec 31, 2012						
	Insurable earnings by year					
Injury year	2007	2008	2009	2010	2011	2012
2007						Total insurable earnings
2008						
2009						
2010						
2011						
2012						

EMPLOYER A

Insurable Earnings – $108.95M

EMPLOYER D

Insurable Earnings – $0.655M

Step D: Determining an Employer's Risk Profile

Using Steps B & C, the WSIB would then determine an employer's risk profile:

Formula 1: Determining an Employer's Risk Profile

$$\frac{\text{Step B}}{\text{Step C}} \times 100 = \text{Employer's Risk Profile}$$

EMPLOYER A

$$\frac{\text{CC } \$0.5461M}{\text{IE } \$108.95M} \times 100 = 0.5012$$

EMPLOYER D

$$\frac{\text{CC } \$0M}{\text{IE } \$0.655M} \times 100 = 0$$

Step E: Determining the Class Risk Profile

In order to compare how the employer's risk profile compares to the class risk profile, the WSIB needs to obtain the total claims costs and insurable earnings for the class of that employer. The following illustrative example depicts the calculation of the class risk profile.

Formula 2: Determining the Class Risk Profile 1

$$\frac{\text{Total Class Claims Cost}}{\text{Total Class Insurable Earnings}} \times 100 = \text{Class Risk Profile}$$

EMPLOYER A

$$\frac{\$0.1881\text{B}}{\$48.8004\text{B}} \times 100 = 0.3854$$

EMPLOYER D

$$\frac{\$0.2317\text{B}}{\$36.5435\text{B}} \times 100 = 0.6340$$

Step F: Determining an Employer's Adjusted Risk Profile

- In Step F, the WSIB would need to apply the Predictability Scale to the employer's risk profile in undertaking the Employer Level Premium Rate Adjustments.

- An employer's risk profile (as determined in Step D) is directly determined by their total claims costs (subject to the graduated per claim limit) and insurable earnings, however it does not consider their actuarial predictability. Based on their standing in the Predictability Scale, this employer risk profile is weighted based on the appropriate share of their individual experience, as determined in Step A.

- By using an employer's adjusted risk profile, the WSIB is better able to generate a premium rate that reflects the employer's own past experience, while not subjecting the employer to unpredictable and volatile rate fluctuations. Thus, in Step F, an employer's risk profile is adjusted by the employer's own experience using the predictability scale and the class average risk profile.

Step F: Determining an Employer's Adjusted Risk Profile

In order to calculate the employer's adjusted risk profile, the WSIB would multiply the employer's actuarial predictability factor (from Step A where the WSIB discussed individual and collective experience) against their risk profile (Step D) and calculate their adjusted risk profiles as follows:

Formula 3: Determining an Employer's Adjusted Risk Profile

(Step A X Step D) + [(1.0 – Step A) X Step E] = Employer Adjusted Risk Profile

EMPLOYER A

(0.40 x 0.5012) or 0.2005 + [(1.0 - 0.4) x 0.3854 or 0.2312] = 0.4317

EMPLOYER D

(0.025 x 0.0) or 0 + [(1.0 - 0.025) x 0.6340 or 0.6182] = 0.6182

Step G: Determining an Employer's Risk Profile Index

In this step, the WSIB would assess the employer's results against the class risk profile (Step E) to determine how this employer performed versus the average of all the other employers in the same class. This calculation gives the WSIB the employer's risk profile index.

The WSIB would then use the Employer's Risk Profile index to determine the individual employer's Target Premium Rate.

Formula 4: Determining an Employer's Risk Profile Index

$$\frac{\text{Step F}}{\text{Step E}} \times 100 = \text{Employer's Risk Profile Index}$$

EMPLOYER A

$$\frac{0.4317}{0.3854} \times 100 = 112.01\%$$

EMPLOYER D

$$\frac{0.6182}{0.6340} \times 100 = 97.5\%$$

Step H: Determining an Employer's Target Premium Rate

- **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.

- Subject to the graduated per claim limit at the employer and class level, the employer target rate identifies what the employer should be paying as a premium rate, based on their actual experience adjusted by predictability scales relative to class average and subject to the minimum charge ($0.20) and maximum risk band (about 3X the class target premium rate) in each class.

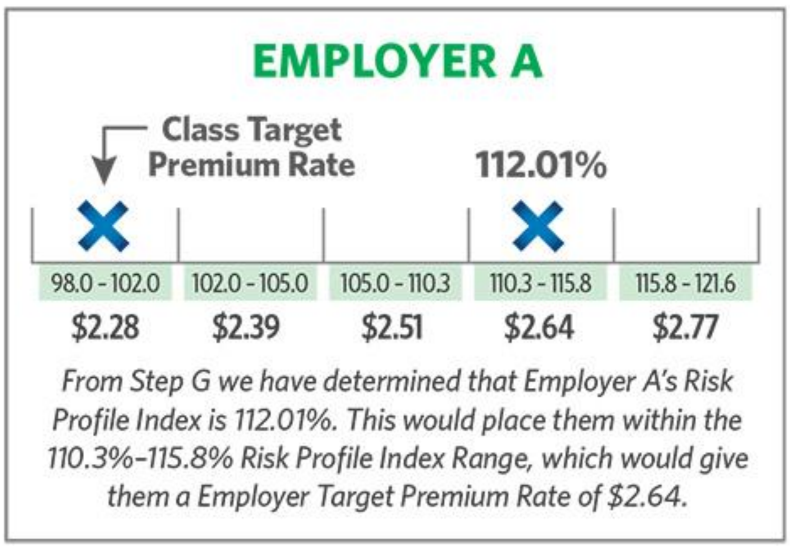
- The Employer Target Premium Rate does not include the employer's starting point, nor does it include the three risk band limitations, which reduces the premium rate volatility that an employer would experience in moving from their starting point towards their target premium rate

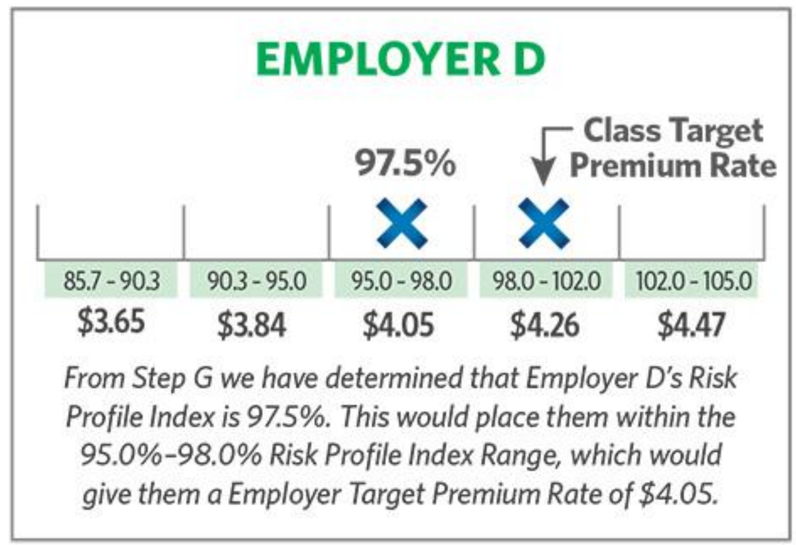
Step H: Determining an Employer’s Target Premium Rate

In order to calculate the Employer Target Premium Rate that each employer should be paying, the WSIB would need to determine the employer’s target risk band relative to the Class Target Premium Rate, as well as the collective cost component of the class.

To do this, the WSIB would locate the employer’s risk profile index on the risk bands and obtain the corresponding premium rate.

The outcome of this calculation would outline each Employer Target Premium Rate. This represents what the employer should be paying based on their actuarial predictability and their individual claims experience.





Step I: Determining an Employer's Actual Premium Rate

- **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.

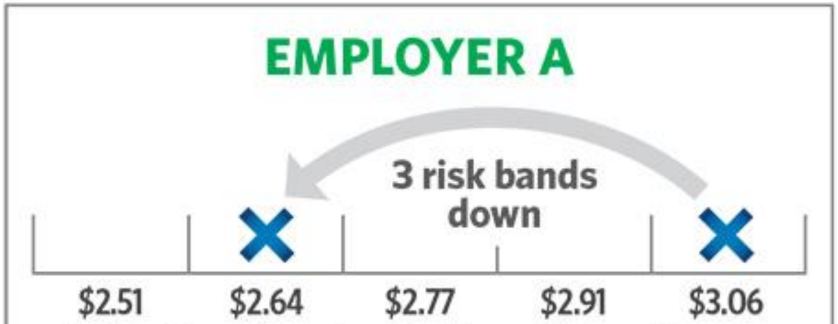
- In order to ensure all employers pay their fair share of the costs of the system, the premium rate for the **minimum risk band** in each class would be set at $0.20.

- In order to move employers from the current to the new process, a **starting point** or an employer's Net Premium Rate in terms of their Employer Actual Premium Rate needs to be established.

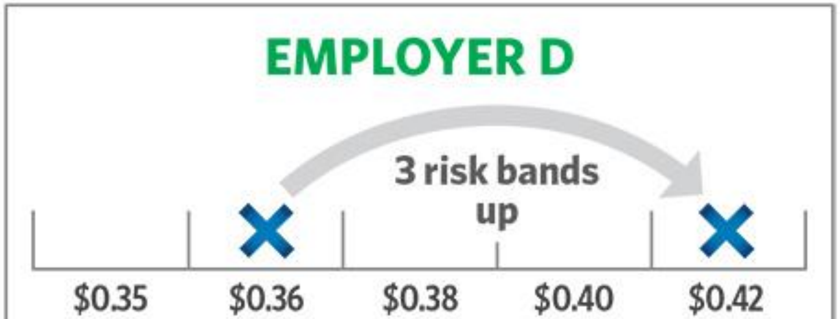
- When transitioning from the current system to a new Rate Framework:
  - For employers who are currently participating in WSIB experience rating programs: using the employer's average "net" premium rate (after considering experience rating refunds and surcharges) over the last three years;
  - For employers who are currently not experience rated (who are not eligible to participate in an experience rating program) using the premium rate of the RG from the prior year; and
  - For all employers, the starting point in the following year would be their previous year's premium rate.

Step I: Determining an Employer's Risk Band Movement

The intention of this step is to gradually move an employer from their Net Premium Rate towards their Employer Target Premium Rate in a manner that would enable them to better predict their WSIB premiums from one year to the next. Using the three risk band limitation (up and down), the WSIB would gradually move employers towards their Employer Target Premium Rate.



In Step H, we determined Employer A's Target Premium Rate to be $2.64. In this step, Employer A will be moving from their Net Premium Rate of $3.06 towards their Employer Target Premium Rate.



In Step H, we determined Employer D's Target Premium Rate to be $4.05. In this step, Employer D will be moving from their Net Premium Rate of $0.36 towards their Employer Target Premium Rate.

Commitment to Health & 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 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 led to high premium rates.

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

Key Considerations to Transition

- 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 could gradually adjust to any new rate setting process.

2015 Consultation Plan

March 31	• Release of a variety of consultation materials to support participation in the consultation process (Web-based tool, Proposed Preliminary Rate Framework Consultation Papers, Video, Information Sheet, etc.).
April	• Technical Sessions to provide a baseline understanding of the proposed preliminary Rate Framework and how it works, including a question and answer segment. • Technical Sessions will be held via webinar and a plenary session that will be held in Toronto.
May – August	• Working Group Sessions: Employer and worker focused Working Group Sessions will be held as a follow-up to the Technical Sessions. These sessions will assist parties in addressing any outstanding questions and support the development of written submissions.
October 2	• Wrap up of online and written submissions.
Fall	• "What We've Heard" session to be held with key stakeholders/participants in the consultation process. At this session the WSIB will share its understanding of the feedback received.
Following this process, the WSIB will consider the various options and perspectives as it finalizes Rate Framework reforms, for consideration by the Board of Directors. A comprehensive transition plan to support stakeholders and the WSIB's own implementation would be developed towards implementation and form part of further stakeholder discussions at a later phase.	

The WSIB wants to hear from you!

For further information visit

www.wsibrateframeworkreform.com

Or email us at consultation_secretariat@wsib.on.ca

Q & A

Question and Answer Period