

WSIB Proposed Preliminary Rate Framework Overview

**Presented by
Michael Zacks**

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Major Changes

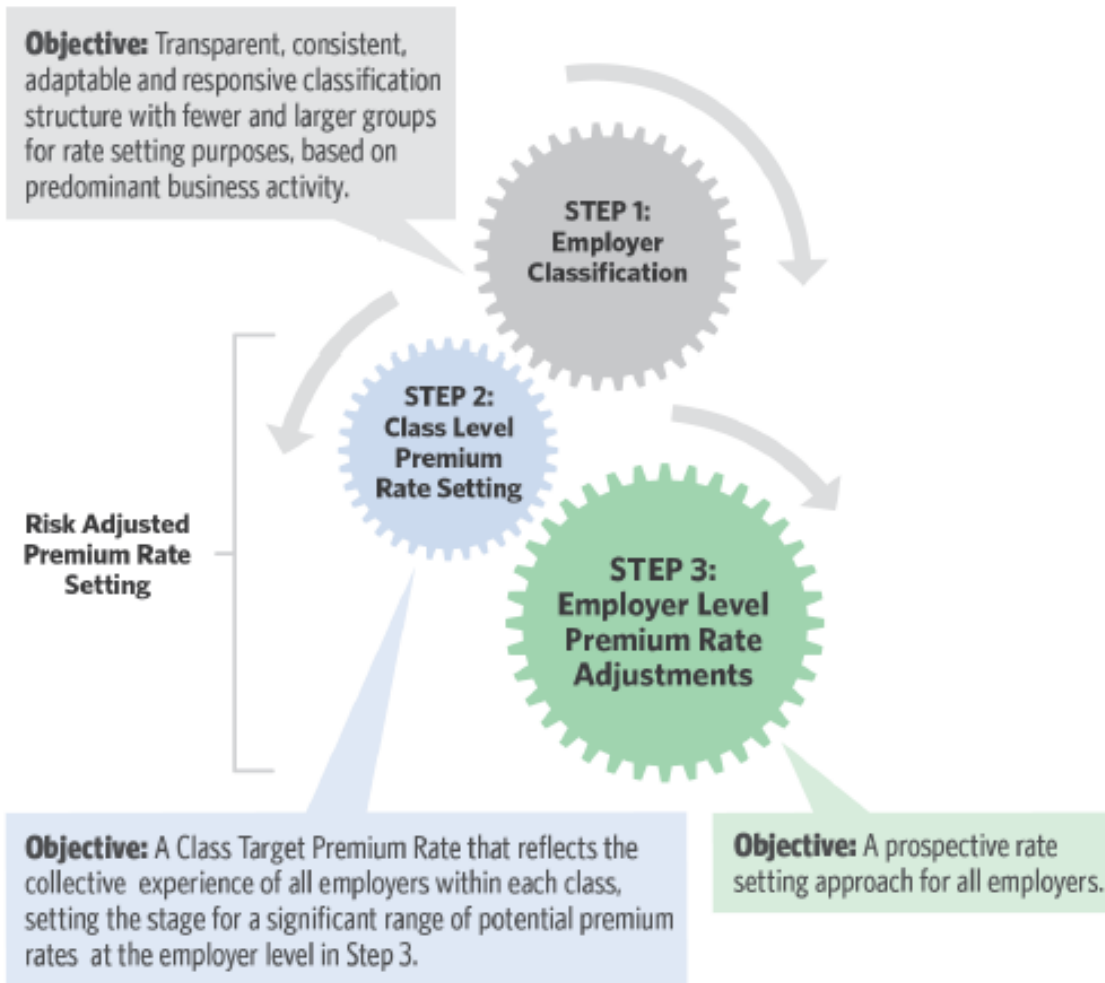
- New classification system
- New single prospective experience rating system
- Likely changes to SIEF
- Possible end of multiple rate groups (RGs)

Revenue Neutrality

- New classification structure and prospective Risk Adjusted Premium Rate (RAPR) won't affect the total amount of premium collected by the WSIB
- New system will re-distribute premiums among individual employers based on their claims experience



Proposed Preliminary Rate Framework: Three Step Approach



New Classification Structure

- Simpler classification structure based on North American Industry Classification System ([NAICS](#)) codes
- NAICS to replace current model
 - 9 Schedule 1 Classes
 - 175+ RGs and 800+ classification units
- 34 NAICS based Classes
- Class assignment based on predominant business activity

NAICS Hierarchical Structure

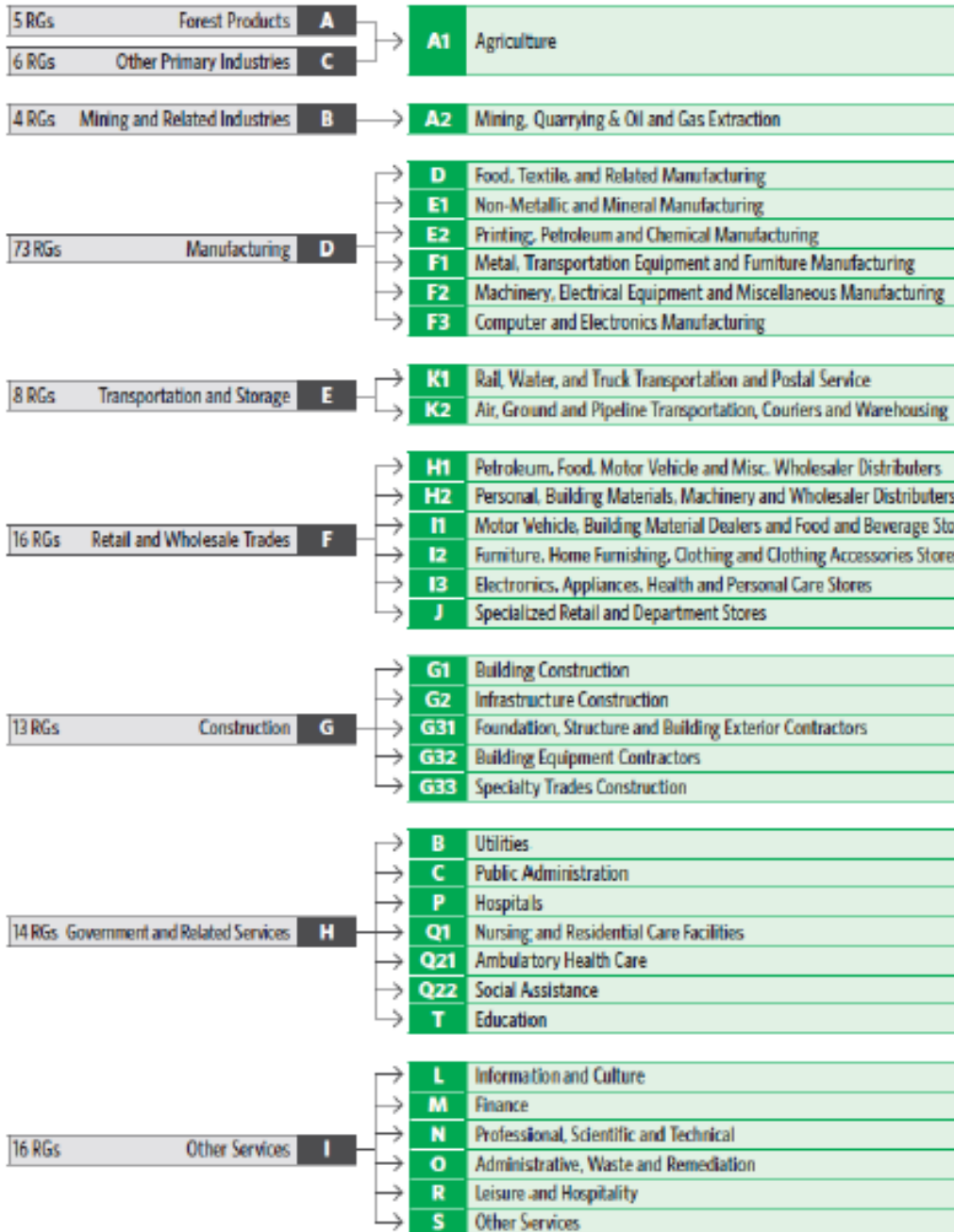
- The structure of NAICS is hierarchical - composed of five levels
 - level 1: sectors (two-digit codes)
 - level 2: subsectors (three-digit codes)
 - level 3: industry groups (four-digit codes)
 - level 4: industries (five-digit codes)
 - level 5: Canadian industries (six-digit codes)
- New WSIB classification model will be at the two digit, three digit, and four digit level

Risk Disparity

- Initially started with 22 NAICS rate groups
- Employers bringing different claims experience relative to class
 - G3 Specialty trades
 - Included demolition at \$18.31 and electrical at \$3.69
- WSIB reviewed proposes 22 classes to reduce disparity
- Board refined class structure by going to 34 classes

Current Model

Updated 34 Class Structure



6 Manufacturing RGs

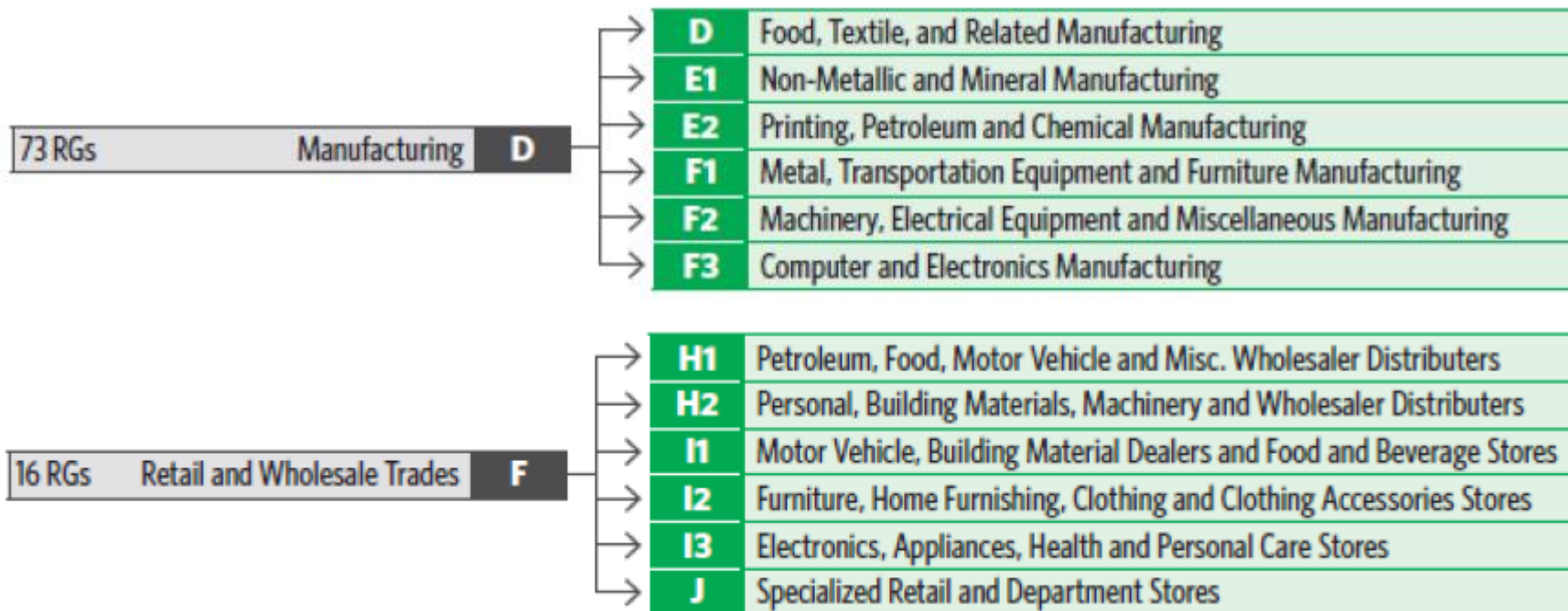
5 Construction RGs



G1	Building Construction	236
G2	Infrastructure Construction	237
G31	Foundation/Structure/Building Exterior Contractors	2381
G32	Building Equipment Contractors	2382
G33	Specialty Trade Contractors	2383-2389

NAICS Detailed Descriptions

G1 – Building Construction	236	<ul style="list-style-type: none">• primarily engaged in the construction of buildings• new construction, additions, alterations, or maintenance and repairs to existing structures
G2 – Infrastructure Construction	237	<ul style="list-style-type: none">• construction of entire engineering projects (e.g., highways and dams)• Includes specialty trade contractors, whose primary activity provide specialized services related to heavy and civil engineering construction projects and not normally performed on buildings or building related projects (road painting, traffic lights)• projects involving water resources (e.g., dredging and land drainage)
G31 – Foundation/Struct ure/Building exterior Contractors	2381	<ul style="list-style-type: none">• Contractors primarily engaged in the specialty trades needed to complete the basic structure (i.e., foundation, frame, and shell) of buildings• May include new work, additions, alterations, maintenance, and repairs (includes roofing)



End of Multiple RGs and RG 755

- Employers will be classified according to their **predominant activity** in the new class structure
- Predominant activity determined by largest percentage of the employer's annual insurable earnings
- Exemption for Temporary Work Agencies
- All employees assessed at company rate in predominant activity
- **Non-exempt construction executive officer assessed at full construction rate not at RG 755 rate**

Determining Predominant Activity Class

Activity 1



RG 764
48% IE



G1

Activity 2



RG 741
41% IE



G31

Activity 3



RG 728
11% IE

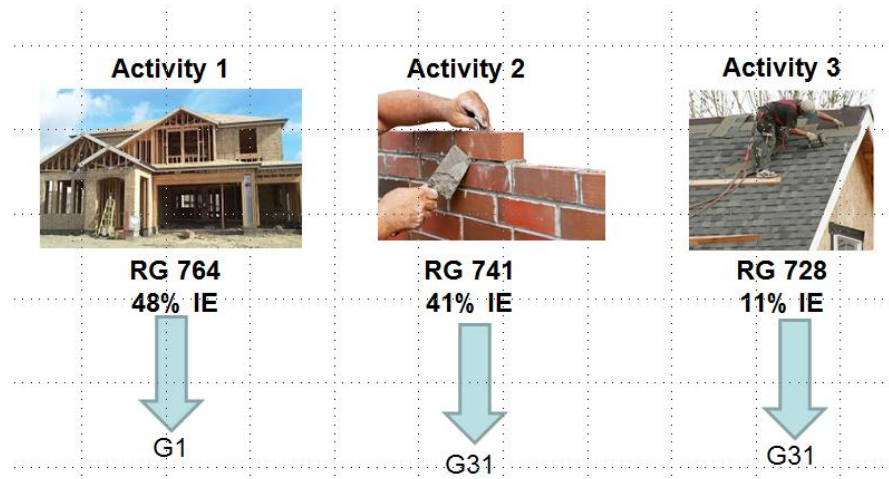


G31

52%
Placed in
G31

Exception to General Rule

- WSIB considering multiple rates for employers engaged in multiple **non-dependent** activities without the need of incorporating separate companies
- Are roofing and masonry standalone businesses?



- If so, may get two separate rate groups G1 and G31

RG	DESCRIPTION	NAICS COMPARISON	PER CENTAGE OF TOTAL ENSURABLE EARNINGS	WSIB FRAMEWORK CLASS	G33	G32	F2	H2
707	Sheet Metal \ Mechanical	238390	16.00%	G33	16%	10%	54%	20%
529	Other Medical Products	339110	15.00%	F2	<p>Predominant business activity would be F2 (manufacturing) as predominant amount (54%) of insurable earnings are in the Rate Groups that would be merged into the new F2 Rate Framework NAICS based class.</p>			
636	Parts Aircraft, Ships, And Boats	336410	15.00%	F2				
402	Transmission Equipment	333619	13.00%	F2				
468	Electronic Equipment and Communication Devices	3336	11.00%	F2				
668	Electrical Equipment Sales	416110	10.00%	H2				
737	Millwrighting	238299	10.00%	G32				
477	Industrial Electrical Equipment	416110	10.00%	H2				

The New Classification Process

- WSIB will determine employer's class based on three years of insurable earnings information
- New employers registering for the first time after new classification structure is implemented, will be classified based on proposed business activities
 - will need to demonstrate their predominant class to the WSIB

Class Level Premium Rate Setting

- Set a Class Projected Premium Rate that reflects collective claims experience of all employers within each class
- Current premium rate components would remain the same

Schedule 1

18%

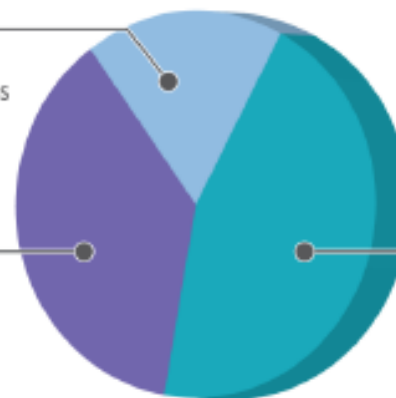
ADMINISTRATION

Includes Legislative Obligations
and Overhead

37%

PAST CLAIM COSTS

Includes UFL cost



NEW CLAIM COSTS

Total expected future claims
cost for the 2014 Injury Year

Graduated Per Claim Limit Costs

- New Rate Framework will incorporate a graduated per claim limit at the class & employer level
- Provides 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%
Proposed Graduated Per Claim Limit Approach	0.25 times maximum IE (\$84,100) or \$21,025	0.5 times maximum IE (\$84,100) or \$42,050	1.0 times maximum IE (\$84,100) or \$84,100	2.0 times maximum IE (\$84,100) or \$168,200	4.0 times maximum IE (\$84,100) or \$336,400	5.0 times maximum IE (\$84,100) or \$420,500	7.0 times maximum IE (\$84,100) or \$588,700

- An employer's actuarial predictability determines the extent to which an employer's premium rate should be affected by its own individual claims experience versus the collective experience of its class
- Each class to stand on its own with no pooling of costs from other classes

Employer's Actual Premium Rate

- Individual employers assigned an adjusted premium rate representing how much an employer would pay
- Considers
 - risk band limitations
 - previous year's premium rate
 - minimum premium rate for the class, and
 - collective experience of all employers in the class

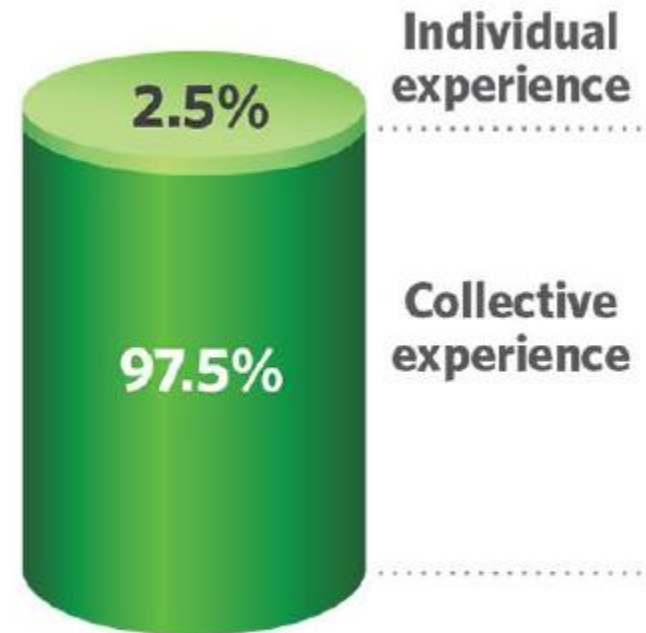
Cost Components of Employer Projected Rate

EMPLOYER A



# claims	127
IE/6yrs	\$108.95 M

EMPLOYER D



# claims	0
IE/6yrs	\$0.655M

Experience Rating

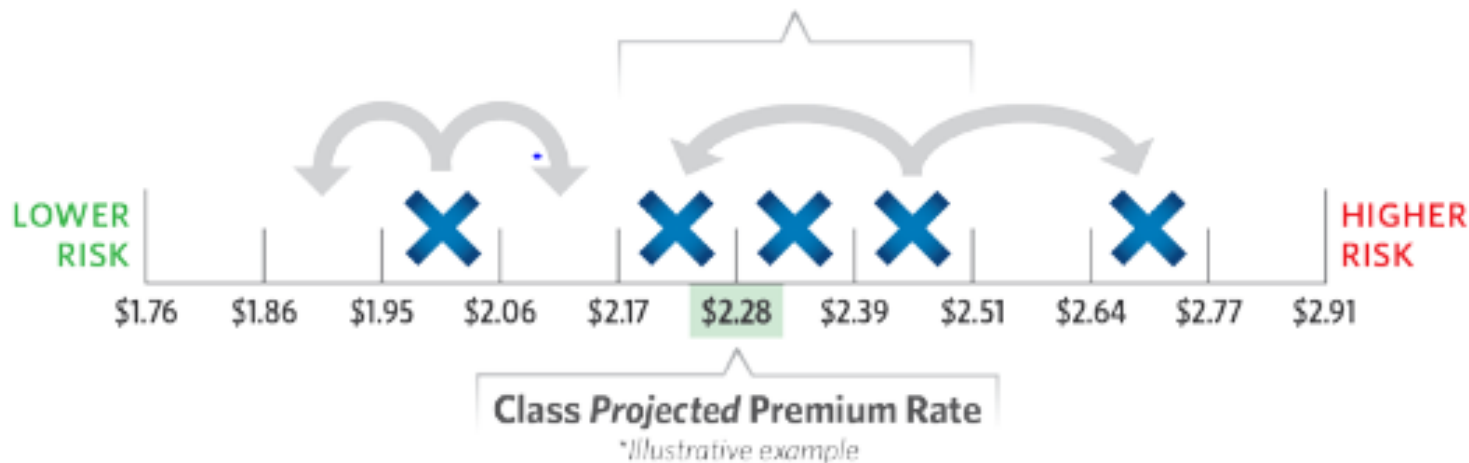
- Will be a new prospective experience rating model with no rebates or surcharges for most employers
- Employers placed in a risk band relative to the Class Projected Premium Rate

Risk Banding

- 40 – 80 bands / class
- Risk bands are subject to limitations
 - premium rate of the minimum risk band (\$0.20)
 - maximum risk band will not exceed 3X the Class Projected Premium Rate
 - each risk band represents approximately 5% increments in premium rate
- Annual Premium Rate Adjustments capped at 3X the Class Projected Premium Rate
 - limits an employer's risk band movement each year, and protect an employer from unexpected catastrophic claim costs in a specific year

Employer Risk Band Placement

Employers with similar risk profiles are grouped for premium rate setting within a risk band and pay a common rate



- **Class Projected 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

Lengthened ER Window

- Proposal recommends a 6 year window
- WSIB proposing a weighted experience window that values the most recent three years 66.6% and the next three years at 33.3%

Six year window including claims costs from Jan 1, 2007 to Dec 31, 2012

Injury year	Incurred claim cost paid by year					
	2007	2008	2009	2010	2011	2012
2007						Total claim costs
2008						
2009						
2010						
2011						
2012						

⏟
⏟

$\frac{1}{3}$
 $\frac{2}{3}$

Surcharge

- WSIB proposes surcharging employers who are consistently at the maximum of their class
- WSIB is recommending the Rate Framework include a surcharge mechanism
- WSIB will undertake a further review in the development of a specific approach that would work alongside workplaces to identify key drivers for a sustained poor claims experience
- **Stay tuned for this one!**

SIEF

- Based on stakeholder response, WSIB will keep SIEF as a interim measure pending the review
- Will also look at appropriate cost allocation of relief, considering the potential for some allocation at the Schedule 1 level, compared to current practice of allocating at the Industry Class level

Fatal Claims

- Current fatal claims policy – loss of a rebate in year of accidental death – will not work in new system
- WSIB recommending to use the rolling five year average cost of fatalities across Schedule 1, in place of the actual cost of a fatal claim
 - 2014 average cost of a fatality was about \$367,000
 - the per claim limit will apply to fatality claims

Credibility Scale	2.5%	5%	10-20%	30-40%	50-60%	70-80%	90-100%
Per Claim Limit based on 2014 Maximum Insurable Earnings of \$84,100	0.25 X Max IE	0.50 X Max IE	1 X Max IE	2 X Max IE	4 X Max IE	5 X Max IE	7 X Max IE
Application of Max IE to Average Cost of Fatality	\$21,025	\$42,050	\$84,100	\$168,200	\$336,400	\$367,000	\$367,000

Long Latency Occupational Disease

- Rate Framework proposes to keep LLOD claims as a collective cost that is pooled at the class level – ie, not experience rated
- WSIB asks whether LLOD costs should continue to be borne by all employers in a class or charged directly to the individual accident employer
- The majority of stakeholders want LLODs excluded from individual employer experience

WSIB Consultation

- **December 2015 – March 2016**
 - Stakeholders comment until the end of March, by providing written response via the Consultation Secretariat (consultation_secretariat@wsib.on.ca)
- Later in 2016, the WSIB will be seeking approval of the new Rate Framework from its Board of Directors, towards a targeted implementation of 2019 at the earliest
- Development of the policy framework for the new Rate Framework would occur through 2017, with the expressed commitment that it be published one year prior to its implementation

Thank You

(416) 314-8735

michael.zacks@ontario.ca