Rate Framework Consultation

A Discussion on UFL Apportionment

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Objective

- To provide information and consider methods for the reasonable attribution of the UFL, to address the proposition that attributing the UFL on the basis of new claims costs exclusively, is not ‘fair’ to all industry classes.

The Current Approach

- The Unfunded Liability charge is determined for Schedule 1 employers as a collective whole; employers will pay their appropriate share based on their rate group in proportion to their new claims costs.

Class Description	2013 UFL Component of Premium Rate	Contribution to UFL 2013 Rates (in $'M)	% by Class
Class A - Forest Products	1.72	20	1.5%
Class B - Mining And Related Industries	2.38	47	3.6%
Class C - Other Primary Industries	0.68	12	0.9%
Class D - Manufacturing	0.91	362	27.4%
Class E - Transportation And Storage	1.49	117	8.9%
Class F - Retail And Wholesale Trades	0.53	169	12.8%
Class G - Construction	2.40	348	26.3%
Class H - Government & Related Services	0.30	101	7.7%
Class I - Other Services	0.43	145	11.0%
Schedule 1	0.79	1,322	100.0%

Method 1

- Uses actual loss on new claims by injury year from 1998 – 2012, including net experience rating expense, as basis of allocation of UFL by class

Class Description	Current Approach Based on NCC	Method 1 G/L on Claims Cost
Class A - Forest Products	1.5%	3.2%
Class B - Mining And Related Industries	3.6%	4.8%
Class C - Other Primary Industries	0.9%	0.1%
Class D - Manufacturing	27.4%	49.9%
Class E - Transportation And Storage	8.9%	7.4%
Class F - Retail And Wholesale Trades	12.8%	3.9%
Class G - Construction	26.3%	18.8%
Class H - Government & Related Services	7.7%	8.3%
Class I - Other Services	11.0%	3.5%
Schedule 1	100.0%	100.0%

1998-2012 Injury Years, at 2012 Year End
Methods #1 and #2 do not account for the UFL generated prior to 1998

Method 2

- Allocates UFL by class based on the relative distribution by class of the sum of 50% of the premiums paid (net of experience rating expense) and 50% of total calendar year paid claims from 1998 - 2012

Class Description	Current Approach Based on NCC	Method 2 50% of Premium (net of ER) & 50% of Paid Claims
Class A - Forest Products	1.5%	3.1%
Class B - Mining And Related Industries	3.6%	3.6%
Class C - Other Primary Industries	0.9%	1.8%
Class D - Manufacturing	27.4%	32.7%
Class E - Transportation And Storage	8.9%	7.3%
Class F - Retail And Wholesale Trades	12.8%	12.6%
Class G - Construction	26.3%	21.4%
Class H - Government & Related Services	7.7%	8.5%
Class I - Other Services	11.0%	9.0%
Schedule 1	100.0%	100.0%

1998-2012 Financial Year
Methods #1 and #2 do not account for the UFL generated prior to 1998
Future Liabilities are not considered in Methods #2 and #3

Method 3

- Allocates UFL by class based on the 1998 UFL (adjusted for investment returns through 2012) plus notional loss (less notional gain) from 1999-2012
- Notional gain/loss for 1999-2012 defined as premium paid net of experience rating less paid claims (CPI-adjusted through 2012)

Class Description	Current Approach Based on NCC	Method 3 1998 UFL by Class plus Net Premium Less Paid Claims
Class A - Forest Products	1.5%	9.5%
Class B - Mining And Related Industries	3.6%	11.4%
Class C - Other Primary Industries	0.9%	2.1%
Class D - Manufacturing	27.4%	45.3%
Class E - Transportation And Storage	8.9%	2.1%
Class F - Retail And Wholesale Trades	12.8%	2.1%
Class G - Construction	26.3%	23.2%
Class H - Government & Related Services	7.7%	2.1%
Class I - Other Services	11.0%	2.1%
Schedule 1	100.0%	100.0%

1998 UFL adjusted by average investment returns, Claims adjusted with CPI to 2012
1999 to 2012 Financial Years
Methods #3 accounts for the UFL generated prior to 1998
Future Liabilities are not considered in Methods #2 and #3

What does this tell us…

- There is no one precise method for apportioning the UFL on an industry class basis.
- Using new claims costs to apportion the UFL might not be fair and reasonable for the UFL generated prior to 1998 and from 1998 to 2012.
- The general conclusion is that using new claims costs to apportion UFL recovery may lead to a certain level of subsidization, as demonstrated by the reasonable methods identified.
- The WSIB Rate Framework Consultation Discussion Paper seeks to address questions on the appropriate apportionment of the UFL to employers. The information provided today is important in supporting the analysis towards a recommended approach.

Discussion