

Undertaking # 3

MPI to provide an explanation as to what benefits the ratepayers will receive from a 1.8 percent increase in rates, and also provide an explanation as to what the ratepayers would have to forego if a 1.8 percent rate increase were not provided.

RESPONSE:

What will Manitobans get with a 1.8% premium rate increase?

Rate Stability. Manitobans place a very high value on rate stability together with a continuation of an effective balance of the four aspects of the Manitoba Public Insurance value equation: price, good coverage, quality service and access.

We have discussed often the long term view the Corporation takes in administering the compulsory insurance program. For example, long term strategies have been taken for service improvement through streamlined renewals, strategic placement of new buildings and for stable service delivery through the use of service standards and expense containment. Multi-year IT projects are another example where the Corporation has taken a long term view to ensure both the improvement and stability in service delivery.

This rate application continues that long term view.

Enhanced and stable IT systems, replacing the outdated systems, will ensure that the Corporation will be able to provide customers with uninterrupted service with an improved network infrastructure that can support future demands. Should a disaster such as a local flood, or other local natural disaster occur, the Corporation's systems will not be impacted and, other than the impact due to the natural disaster itself, there will be minimal impact to Manitobans. This high level access to service is expected by our customers.

Given the significant loss of \$72.2 million incurred last fiscal year, the rate stabilization reserve is below the DCAT indicated target of \$172 million by more than \$30 million. Without the 1.8% increase it is forecasted that during the rating years the RSR would fall to \$120 million by 2015/16.

If the rate increase is not approved and the forecasts hold, the Corporation would undoubtedly be filing for an RSR rebuilding surcharge next year.

If the rate increase is approved and the interest rates decline as they have in the past, the RSR will not reach its target in the outlook period (see attached).

If the 1.8% rate increase is provided, and the interest rates continue to be more favourable than our current forecast, then the RSR will be returned to the DCAT driven target more quickly.

The 1.8% effectively manages significant risks being faced by the Corporation and ensures the long term operational and financial stability of the Basic insurance program. This is a very important benefit to Manitobans which cannot be over emphasized.

Falling Interest Rate Scenario (Revised with FQ2 Actuals in Forecast) Summary

			2013A	2013/14P	2014/15P	2015/16P	2016/17P	2017/2018P
Name	Descriptive	Rate impact						
Base - GRA Interest Rate Apr 2013	With 1.8% Prem. Rate Increase	Basic Net Income	(72,214)	5,472	(7,494)	2,178	20,500	24,240
		Retained Earnings	141,469	146,941	139,448	141,626	162,126	186,366
Falling Interest Rates (Revised)	With 1.8% Prem. Rate Increase With FQ2 Actuals in Forecast	Basic Net Income	(72,214)	31,168	(83,302)	40,690	12,796	2,162
		Retained Earnings	141,469	172,638	89,336	130,025	142,821	144,982
	DIFFERENCE TO BASE	Basic Net Income	-	25,696	(75,808)	38,511	(7,704)	(22,078)
		Retained Earnings	-	25,696	(50,112)	(11,601)	(19,305)	(41,383)

Name	GRA Interest Rate (Base)	Falling Interest Rates	
		- Revised	Difference
Q1 2013/14	1.87%	1.87%	0.00%
Q2 2013/14	1.90%	2.50%	0.61%
Q3 2013/14	1.92%	2.52%	0.60%
Q4 2013/14	2.00%	2.70%	0.70%
Q1 2014/15	2.08%	2.49%	0.42%
Q2 2014/15	2.15%	2.29%	0.14%
Q3 2014/15	2.22%	2.08%	-0.14%
Q4 2014/15	2.32%	1.87%	-0.45%
Q1 2015/16	2.43%	1.87%	-0.56%
Q2 2015/16	2.52%	2.50%	-0.02%
Q3 2015/16	2.62%	2.52%	-0.10%
Q4 2015/16	2.67%	2.70%	0.03%
Q1 2016/17	2.74%	2.80%	0.06%
Q2 2016/17	2.93%	2.89%	-0.04%
Q3 2016/17	3.06%	3.05%	-0.01%
Q4 2016/17	3.21%	3.18%	-0.04%
Q1 2017/18	3.39%	3.08%	-0.31%
Q2 2017/18	3.53%	3.19%	-0.34%
Q3 2017/18	3.68%	3.28%	-0.40%
Q4 2017/18	3.86%	3.44%	-0.42%

Falling Interest Rates (Revised) Interest Rate Forecast Description

2013/14: September Adjusted Standard Interest Rate Forecast*

2014/15: Linear interpolation back to 1.87% (initial starting point of forecast)

2015/16 to 2017/18: September Adjusted Standard Interest Rate Forecast where Q1 2013/14 forecast is applied to Q1 2015/16, 2013/14 Q2 forecast is applied to Q2 2015/16 forecast, etc.

* September Adjusted Standard Forecast is from PUB Pre-Ask 3-2 (b), which adjusts for average of period, and excludes the highest forecast.