Section Title: Finance, Assessments and Administration – Accounting and Finance
Subject: Funding Policy
Effective Date: October 1, 2014

POLICY PURPOSE

The Board of Directors and the Workers Compensation Board (WCB) play a key role in the financial stewardship of the workers compensation system. The funding policy establishes a framework that ensures the financial security and sustainability of the compensation system in the long term. The framework strives for equity among generations of employers by charging today's employers for today's injury and administration costs. Under the funding framework, the assessment rates set for employers should be stable and predictable.

The WCB's Accident Fund Reserve protects the workers compensation system from a variety of risks and uncertainties that could have significant financial implications. The level of this reserve will be based on amounts necessary to protect the compensation system against these risks and uncertainties.

A. POLICY

1. Funding Approach

The WCB is committed to operate on a fully funded basis to a level-funding standard.

Full funding requires that current employers pay for the current and future costs of existing compensable injuries and their administration, rather than future generations of employers paying for those injuries. Under full funding, the WCB's assets would fully match or exceed its liabilities. One measure of full-funding is the ratio of the WCB's assets to its liabilities. This ratio is commonly referred to as the "funding ratio". Fully funded status is achieved when this ratio is equal to or greater than one.

Under level funding, the cost of claims with lengthy latency periods is funded in a level fashion over the worker's period of exposure to the hazardous substances which lead to the injury or disease.

2. Accident Fund Reserve

The WCB will establish the dollar amount of the reserve based on the requirements of *The Workers Compensation Act* (the Act) or standard insurance principles. The WCB has one reserve fund, the Accident Fund Reserve, which is maintained to protect the workers compensation system from risks and uncertainties, catastrophic events, and to ensure that annual influences do not unduly distort the funding process. This reserve is increased or decreased by the operating surpluses and deficits of the WCB.

3. Target Level

Effective 2014, the target level for the Accident Fund Reserve is calculated based on a targeted funding ratio of 130 per cent. The funding ratio of 130 per cent includes amounts to reflect potential downturns in the financial markets and other risks and uncertainties. The formula to determine the Accident Fund

Reserve Target is as follows:

WCB Liabilities as at Dec 31 times 30 per cent,

minus Accumulated Other Comprehensive Income, or

plus Accumulated Other Comprehensive Loss

= Accident Fund Reserve Target.

4. Allocation of Operating Surpluses and Deficits

When the WCB records an annual operating surplus or deficit this operating surplus or deficit will be allocated to the Accident Fund Reserve.

5. Disposition of Reserves

When the target level is achieved for the Accident Fund Reserve, any amount above the target level is considered excess. The Board of Directors will determine the method of dealing with the excess amounts in the Accident Fund Reserve. The Board of Directors may dispose of the excess through a number of ways including:

i. rebates;
ii. reductions in the average assessment rate;
iii. increased benefits; or
iv. some combination of i. - iii; or
v. no action, with further review in one year or less.

The Board of Directors may authorize the drawing down from the Accident Fund Reserve in order to stabilize assessment rates against unforeseen business fluctuations and year-to-year business risks. This decision may require the WCB to budget for an operating deficit.

Once the year-end financial statements become available, the Board of Directors determines any disposition of the Accident Fund Reserve.

6. Shortfall in the Accident Fund Reserve

If the Accident Fund Reserve falls more than 20% below the target level, the Board of Directors may increase the average assessment rate to move the Reserve toward the target level. The Board of Directors may consider other options to eliminate the shortfall to the target level in the Reserve.

7. Assessment Rate Setting

On an annual basis, the Board of Directors will set the average assessment rate. In setting this rate, the Board of Directors will consider the target and actual level of the Accident Fund Reserve. An individual employer's assessment rate will be set based on this average assessment rate and the framework detailed in Policy 31.05.05, *Rate-Setting Model for Class E Employers.*

B. <u>REFERENCES</u>

The Workers Compensation Act, sections 69, 72, 76.5, 81-83, 96
WCB Policy 31.05.05, *Rate-Setting Model for Class E Employers*

History:
1. Policy approved by Board Order 35/96, on October 30, 1996, effective October 1, 1996.
2. Policy amended effective October 1, 1996. Approved by Board Order 12/97 on September 30, 1997.
3. Policy amended effective January 1, 1999. Approved by Board Order 31/99 on September 22, 1999.
4. Policy amended effective January 1, 1999, to correct grammatical errors. Approved by Board Order 14/02 on April 30, 2002.
5. Policy amended effective December 31, 2004, by Board Order 22/04 on December 1, 2004. Policy 31.05, *Funding Policy*, and Policy 31.20, *Rate Stabilization Fund*, were combined into one policy 31.05. Policy 31.20, *Rate Stabilization Fund*, was rescinded effective December 31, 2004. The Accident Fund Balance and the Rate Stabilization Fund were combined to form the Accident Fund Reserve. In 2004, the WCB adopted the new accounting standards introduced by the Canadian Institute of Chartered Accountants. As a result of these changes, the WCB discontinued using the "smoothing" approach to record gains and losses on investments. Effective January 1, 2004, investments are recorded at their fair market value in the year in which the change occurs. A new account titled Accumulated Other Comprehensive Income was introduced. This account primarily records the unrealized gains and losses of the WCB investment portfolio.
6. Policy amended effective September 1, 2007, by Board Order 25/07 on August 30, 2007. The major revisions to this policy are: include the Accumulated Other Comprehensive Income account (in addition to the Accident Fund Reserve) in the funding target level, revise the funding target level calculation to mitigate risk (resulting funding ratio is now about 130% versus 122%), revise the language regarding Excess Reserves to allow for more discretion for the Board in the event that the funding target is exceeded.
7. Policy amended by Board Order No. 22/11 on September 22, 2011, effective January 1, 2011. The Funding Policy is amended to exclude Other Comprehensive Income from the reserve funding target in concert with the change to the Employee Benefit standard.
8. Minor formatting changes were made to the policy, June 27, 2012.
9. Policy amended by Board Order 27/14 on September 24, 2014, effective October 1, 2014. The Funding Policy is amended to change the method of calculating the Accident Fund Reserve. The use of the formulas and factors based on OSFI minimum capital concepts, standard deviations of the returns of the investment portfolio, and calculated allocations for benefit liabilities, catastrophes, latent occupational diseases and accounting standard changes is discontinued. The new calculation determines a value for the Accident Fund Reserve that will produce a Funding Ratio of 130 per cent. The Funding Ratio is defined as the WCB's ratio of total assets to total liabilities.

10. Reference section of the policy updated to reflect the new name for policy 31.05.05 on September 18, 2017.