

Section	Policy
40	44.100

Section Title: Benefits Administration - Other Entitlements
Subject: Interest Rates
Effective Date: January 1, 2008

POLICY PURPOSE

Under certain circumstances, injured and ill workers or the dependants of fatality victims may convert their payments under *The Workers Compensation Act* (the Act) from a monthly pension to a lump sum or from a lump sum to a monthly pension. The Workers Compensation Board (WCB) estimates the payment to which these individuals are entitled based on interest rates and mortality tables set out in this policy.

Interest rate estimates are made in the following situations to calculate the:

- a) present value of future payments to a claimant for a lump sum settlement under subsections 26(2) and 40(4) of the Act as it read on December 31, 1991,
- b) present value of future payments to a claimant for a lump sum settlement under section 32.1, subsection 36(4) and section 109.4 of the Act in effect January 1, 1992; or
- c) monthly payment of an annuity under subsection 36(2) of the Act in effect January 1, 1992.

In most of the above situations, the WCB uses mortality tables to determine how long claimants are expected to live.

The interest rates and mortality tables may vary according to the purpose for which they are made. This policy describes the rates and tables that will be used in each of the different circumstances described above.

A. POLICY

Interest Rates

1. Calculations under section 32.1 of the Act in effect January 1, 1992
(Monthly Survivors' Payments)

When the interest rate is established to calculate the present value of future payments to the spouse or common-law partner of a fatality victim for a lump-sum settlement under section 32.1, the base rate will be the rate on the Chartered Bank Administered Interest Rate: Guaranteed Investment Certificates – 5 Year (CANSIM II series V122526). This base rate will then be adjusted as follows:

- i. the rate will be reduced by a percentage that reflects the increase in the Industrial Average Wage over the last twelve months; and
- ii. the rate will be increased by .75% to reflect the investment value of the lump sum to the spouse or common-law partner.

2. Calculations under subsections 26(2) and 40(4) of the Act (pre-1992) and section 109.4 of the Act (post-1991). (Permanent Disability Pensions)

When the interest rate is established to calculate the present value of future payments to a claimant for a lump-sum settlement, and the benefits are indexed to the Consumer Price Index (CPI), the base rate will be based on the Canadian Institute of Actuaries' Transfer Value formula for indexed benefits as amended from time to time.

When the interest rate is established to calculate the present value of future payments to a claimant for a lump-sum settlement, and the benefits are not indexed to the CPI, the base rate will be based on the Canadian Institute of Actuaries' Transfer Value formula for non-indexed benefits as amended from time to time.

This base rate will then be increased as follows:

- a) an increase of .25% to reflect the danger of adverse selection when the worker has a relatively unrestricted right to a lump sum; and
- b) an increase of 1.25% to reflect the investment value of the lump sum to the worker.

3. Calculations under subsection 36(2) of the *Act* in effect January 1, 1992 (Annuities)

When the interest rate is established to calculate the monthly payment for any annuity under subsection 36(2), the rate will be based on the Canadian Institute of Actuaries' Transfer Value formula as amended from time to time.

4. Calculations under subsection 36(4) of the *Act* in effect January 1, 1992 (Guaranteed Annuity)

When the interest rate is used to calculate the present value of the guaranteed portion of an annuity following the death of the annuitant under subsection 36(4), the rate will be based on the Canadian Institute of Actuaries' Transfer Value formula as amended from time to time.

5. Mortality Tables

When the payment depends on how long the claimant is expected to live, a mortality table is used to assist the WCB in determining the present value of future payments or determine the amount of monthly payment a lump sum will provide.

In consultation with the WCB's actuary, the WCB will periodically review these mortality tables. When appropriate, adjustments to the mortality tables should be made.

B. REFERENCES

The Workers Compensation Act, subsections 26(2), 40(4) and 81(1) [Prior to January 1, 1992]

The Workers Compensation Act, subsections 29(1) and 29(12), section 32.1, subsections 36(2) 36(4), 38(5), 42(2) & (3), 42(9), 81(1) and section 109.4 [On or After January 1, 1992]

WCB Policy 44.100.10, *Lump Sum Commutations*

WCB Policy 44.100.20, *Annuities*

History:

1. Policy 44.100 established by Board Order 19/90 effective June 21, 1990. No previous policy.
2. Policy amended by Board Order 8/91 effective July 1, 1991. Re-issued to policy manual July, 1993 as 44.100.01.
3. Policy replaced by Board Order 37/91, effective January 1, 1992, to establish a new method of calculating discount rates and to reflect legislative change.
4. Policy amended by Board Order 24/92 retroactive to January 1, 1992, to incorporate the annuity provisions of *The Workers Compensation Act* (Bill 59).
5. Administrative Guidelines amended by Board Order 4/93, to adjust the base rate used to establish the discount rate for lump sum payments effective January 1, 1993, in accordance with point 6 of the Policy Statement.
6. Policy amended by Board Order 23/93, retroactive to January 1, 1992, to include lump sum settlement calculations under section 32.1 and subsection 36(4) of the *Act*, which covers surviving spouses and decedent annuitants, respectively.
7. Policy amended by Board Order 46/94 to reflect the revised Transfer Value Formula currently recommended by the Canadian Institute of Actuaries and whenever subsequently amended. This policy revision applies to any annuities established after September 1, 1994.
8. Policy amended by Board Order 5/96 on February 29, 1996, effective January 1, 1996, to incorporate retirement annuities and other minor clarifications. Policy re-titled Interest & Mortality Rates. Former policies re-issued to policy manual February 29, 1996, as 44.100.01 (effective January 1, 1992, to December 31, 1995) and 44.100.02 (effective June 15, 1990, to December 31, 1991).
9. Policy amended by Board Order 13/00 to change the basis for the calculation of lump sum payments to a calculation more related to the Canadian Institute of Actuaries Transfer Value formula. Former policies re-issued to policy manual (April 27, 2000), as 44.100.01 (effective January 1, 1996), 44.100.02 (effective January 1, 1992, to December 31, 1995) and 44.100.03 (effective June 15, 1990, to December 31, 1991).
10. Policy amended to correct incorrect Cansim reference (B14080 should be B14056) by Board Order 12/02 on March 22, 2002.
11. Updated July 1, 2005 – Bill 41 effective July 6, 2001, redefined “spouse” and added a separate definition of “common-law partner”. The change in the policy adds the phrase “or common-law partner” after “spouse”.
12. Policy amended to reflect the renaming of the rate on five year Guaranteed Investment certificates from B14056 to CANSIM II V122526 – August 2005.

13. Policy was amended by Board Order 40/07 on December 21, 2007. This policy reflects the use of mortality tables to determine the present value of future payments or to determine the amount of monthly payment a lump sum will provide. The revised policy applies to decisions on lump sum commutations and annuity requests received by the WCB on or after January 1, 2008. Minor grammatical changes were also made to this policy.
14. Policy 44.100 established by Board Order 13/00 was repealed effective January 1, 2008. Former policy re-issued to policy manual as 44.100.01.
15. Minor formatting and grammatical changes were made to the policy June 27, 2012.