

Section	Policy
30	31.05

Section Title: Finance, Assessments and Administration - Accounting and Finance
Subject: Funding Policy
Effective Date: October 1, 2018

A. POLICY PURPOSE

The Workers Compensation Act (the Act) establishes the Accident Fund to provide for the payment of compensation, outlays and expenses associated with the workers compensation system. The Act also requires that sufficient funds be available for the payment of all current and future liabilities, and the maintenance of reserves sufficient to ensure the financial security of the system in the long term.

This policy provides a framework to guide the Board of Directors' funding and rate setting decisions. Its purpose is to ensure that the statutory objectives outlined above are met.

B. POLICY

1. Funding Approach

The WCB is committed to operate on a fully funded basis. Full funding requires that current employers pay for the current and future costs of claims, and their administration, rather than future employers having to pay for those costs.

The Accident Fund is considered 100 per cent funded when total WCB assets equal total WCB liabilities. The ratio of assets to liabilities is commonly referred to as the funding ratio.

2. Accident Fund

The WCB has one fund, the Accident Fund, which pays for the workers compensation system, and also serves to protect that system from risks, uncertainties, and catastrophic events. Management of the Accident Fund accordingly seeks to prevent annual influences from unduly distorting the funding approach.

3. Funding Ratio Target

The WCB's funding ratio target is 130 per cent, meaning the Accident Fund is sufficient to fully fund 100 per cent of all current and future liabilities - plus an additional 30 per cent to protect the system from risk. The funding ratio target is based on long term financial analysis, with the main objective of maintaining rate stability while protecting the system against risk, uncertainty, and market volatility.

4. Management of the Accident Fund

Each year, the WCB publishes its audited financial statements according to International Financial Reporting Standards, and applies a Funding Basis of accounting for the purposes of the funding policy. The WCB uses the Funding Basis to determine the funding ratio. Under the Funding Basis:

- total assets include the deferred assessments of Class B to D employers, actuarially valued using a discount rate that reflects the expected long-term return on the investment portfolio and adjusted for other relevant factors; and,
- total liabilities include the liabilities of the WCB's employee defined benefit plans valued using a discount rate consistent with going concern valuations, and the claim benefit liabilities actuarially valued using a discount rate that reflects the expected long-term return

on the investment portfolio and adjusted for other relevant factors.

In any given year the WCB's funded position may exceed, or fall below, the 130 per cent target.

When this occurs, the Board of Directors will consider steps to move the WCB's funded position back toward the target.

Funding Ratio Above 130 per cent

When the funding ratio exceeds the 130 per cent target in any given year, the Board of Directors, at its discretion, may approve a surplus distribution.

When determining whether a surplus distribution is warranted, the Board of Directors will consider the WCB's long term financial security in the face of risk and market uncertainty, while avoiding rate volatility. The Board of Directors must also consider future business requirements or planned investments in the WCB system.

If the Board of Directors approves a surplus distribution, the distribution amount must not reduce the WCB's funded position below the 130 per cent target, and must not exceed 50 per cent of the preceding year's total premiums.

Policy 31.05.30, *Allocation of Surplus Distribution among Class E Employers*, contains the rules and methods for calculating and allocating a surplus distribution to individual Class E employers.

Funding Ratio at or Below 130 per cent

When the funding ratio is at or below 130 per cent, the following applies:

- Where the funding ratio is between 121 per cent and 130 per cent, the Board of Directors must not approve a surplus distribution.
- Where the funding ratio is between 110 per cent and 120 per cent, the Board of Directors must consider and may approve adjustments in assessment rates to move the WCB's funded position toward the 130 per cent target.
- Where the funding ratio is below 110 per cent, the Board of Directors must consider and may approve adjustments in assessment rates, as well as consider all other options necessary, to move the WCB's funded position toward the 130 per cent target.

At least once every five years, the WCB will undertake a comprehensive funding ratio target review that includes an independent actuarial study. The purpose of the study is to support the Board of Directors decision process on setting a funding ratio target that allows implementation of the WCB's mandate, while ensuring financial security and stability of the workers' compensation system.

C. REFERENCES

The Workers Compensation Act, sections 69, 72, 76.5, 81-83, 88, 96.

Related WCB Policies:

31.05.05, *Rate-Setting Model for Class E Employers*.

31.05.30, *Allocation of Surplus Distribution among 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) and Policy 31.20 was rescinded. The Accident Fund Balance and the Rate Stabilization Fund were combined to form the Accident Fund Reserve and the WCB adopted new accounting standards introduced by the Canadian Institute of Chartered Accountants.
6. Policy amended effective September 1, 2007, by Board Order 25/07 on August 30, 2007 with a revised the funding ratio target and 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. To align with changes 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 to simplify the method of calculating the Accident Fund Reserve and formally adopt a Funding Ratio of 130 per cent.
10. Reference section of the policy updated to reflect the new name for policy 31.05.05, *Rate-Setting Model for Class E Employers* on September 18, 2017.
11. Policy amended by Board Order 30/18 on October 25, 2018, effective October 1, 2018, to provide a framework for WCB Policy 31.05.30, *Allocation of Surplus Distribution among Class E Employers*.
12. Policy amended by Board Order 27/19 on June 20, 2019, effective immediately. The revisions clarify the wording relating to the timing of the Board's approval of the surplus distribution and gives the Board discretion on issuing the distribution if the funding ratio is greater than 140%.
13. Minor formatting changes were made to the policy, October 2020.
14. Policy amended by Board Order 13/24 on April 25, 2024, effective immediately. The revisions clarify use of the Funding Basis of accounting for the purpose of the policy, and wording relating to the Board of Directors' discretion over surplus distribution. A requirement to undertake a comprehensive review of the funding ratio target at minimum every five years was also added.