

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 is a framework to guide the management of the Accident Fund to ensure the workers compensation system's financial security against risk and uncertainty.

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 reserve fund, the Accident Fund, which exists to protect the workers compensation system from risks, uncertainties, and catastrophic events. The reserve increases or decreases by the annual operating surpluses and or deficits of the WCB. Management of the Accident Fund and reserve seeks to prevent annual influences from unduly distorting the funding approach.

3. Funding Ratio Target

The funding ratio target for the Accident Fund is 130 per cent. This 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.

The 130 per cent target provides for 100 per cent funding - sufficient to fully fund all current and future liabilities - plus an additional 30 per cent to protect the system from risk.

Each year the WCB's funded position changes based on the WCB's annual operating surplus or deficit. The formula used to calculate the Accident Fund reserve target is:

Total WCB liabilities at the end of the year (December 31), multiplied by 30 per cent,
minus Accumulated Other Comprehensive Income, or
plus Accumulated Other Comprehensive Loss

4. Management of the Accident Fund

Each year, subsequent to the approval of the WCB's audited year-end financial statements, the Board of Directors will reviews the WCB's funding ratio.

Excess Reserves

When reserves in the Accident Fund are in excess of the 130 per cent funding ratio target, the Board of Directors may approve a surplus distribution. When determining the distribution amount, 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 specific options available to the Board of Directors depend on the WCB's funded position relative to the 130 per cent target. They are:

Funding ratio above 140 per cent: when this occurs, the Board of Directors, at its discretion, shall approve a surplus distribution to eligible employers in a manner that will bring the WCB's funded position back to the 130 per cent target within five years. This total surplus distribution amount may not exceed 50 per cent of the preceding year's total premiums.

Funding ratio between 131 per cent and 140 per cent: when this occurs, the Board of Directors may approve a surplus distribution to eligible employers as long as doing so does not reduce the level of funding below the 130 per cent target. This surplus distribution amount may not exceed 40 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 rules apply:

Funding ratio between 121 per cent and 130 per cent: when this occurs, the Board of Directors may not approve a surplus distribution.

Funding ratio between 110 per cent and 120 per cent: when this occurs, the Board of Directors may approve adjustments in assessment rates in such a manner that will bring the WCB's funded position back to the 130 per cent target within five years.

Funding ratio below 110 per cent: when the funding level drops below 110 per cent, the Board of Directors 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.

C. REFERENCES

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

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

WCB Policy 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.