



**YUKON WORKERS'
COMPENSATION
HEALTH AND
SAFETY BOARD**

SUBJECT: FUNDING

POLICY NO.: FN -07

BOARD APPROVAL: _____

APPROVAL DATE: May 14/96

BOARD ORDER NO.: _____

EFFECTIVE DATE: May 14/96

REVOKED

SEP 27 2005

POLICY STATEMENT

SECTION
REFERENCE:

1, 93

Workers' Compensation Act

POLICY:

FUNDING

GENERAL INFORMATION

The Board is responsible for maintaining a solvent compensation fund managed in the interest of workers and employers. The purpose of this policy is to guide the Board in ensuring that a sound financial position is maintained by the Yukon Workers' Compensation Health and Safety Board and fiduciary responsibilities are carried out in accordance with the Yukon Workers' Compensation Act and the Trustee Act.

POLICY

A. DEFINITIONS

(a) ACTUARIAL BASIS

The Actuarial Basis means the set of actuarial assumptions and methods which are used by the actuary to value the benefits liabilities or to establish the benefits costs component of the assessment rates for a Board. The actuarial basis will vary by Board and is usually described in the actuary's valuation report.

(b) ASSETS

Assets is as defined in the Canadian Institute of Chartered Accountant's Handbook.

(c) CAPITAL ASSETS

Capital Assets is as defined in section 3060.04 of the Canadian Institute of Chartered Accountant's Handbook.

(d) CASH AND CASH EQUIVALENTS

Cash means all currency on hand, deposits with banks or other financial institutions that can be withdrawn on demand without prior notice or penalty, and cheques and other items in transit. Cash equivalents means short-term, highly liquid investments that are readily convertible to known amounts of cash and are so near to maturity that risk of changes in value because of changes in interest rates is insignificant. In general, only investments that, on acquisition, have a remaining term to maturity of three months or less are considered to meet this definition. All investments that qualify to be treated as cash equivalents should be treated as such, including investments which form part of the investment portfolio.

(e) CLAIMS BENEFIT LIABILITY

Claims Benefit Liability means the actuarial present value of all expected benefits payments relating to existing claims, including short term disability, long term disability (pensions, annuities, or loss of earnings benefits), survivor benefits, health care, rehabilitation, cost-of-living increases, enhanced disability and second injury payments and any other legislated or constructive liabilities related to existing claims. Claims Benefit Liability also includes the actuarial present value of expected future administration expenses related to existing claims.

(f) FULLY FUNDED

Fully Funded means the net liquid assets of the board are sufficient to cover the known and projected Claims Benefit Liability.

(g) HEALTH CARE BENEFIT

Health Care Benefit means the accepted active claims, that do not involve loss of earnings and only require health/medical payments including all medical reporting fees.

(h) LONG TERM DISABILITY BENEFIT

Long Term Disability Benefit means the accepted active claims where a client is receiving a long term disability benefit compensation payment. The client will have been deemed and rehabilitation will have ended.

(i) NET LIQUID ASSETS

Net Liquid Assets are comprised of cash and cash equivalents, accounts receivable and investments, offset by accounts payable.

(j) REHABILITATION CLAIMS BENEFIT

Rehabilitation Claims Benefit means the accepted active claims which have a rehabilitation benefit compensation expense payment.

Rehabilitation includes loss of earnings expenses, vocational expenses, medical expenses and excludes reporting fees.

(k) RESERVE

Reserve means the "Potential Liability and Asset Replacement Reserve."

(l) SHORT TERM DISABILITY BENEFIT

Short Term Disability Benefit means the accepted active claims which have a short term disability benefit compensation payment. Short term applies until a client returns to work, or receives medical/vocational rehabilitation, or becomes long term (deemed).

(m) SURVIVOR BENEFIT

Survivor Benefit means the accepted active claims where a survivor is receiving benefit compensation. Survivor Benefit will include benefits payments to a spouse, children and other persons.

(n) UNFUNDED LIABILITY/FUND BALANCE

Unfunded Liability/Fund Balance means the difference between recorded assets and recorded liabilities and reserves.

B. FUNDED POSITION

The Yukon Workers' Compensation Health and Safety Board shall be fully funded. The board shall also have a "Potential Liability and Asset Replacement Reserve" to protect the board from financially adverse events.

The Board shall ensure the annual budget takes into account any projected impacts on the Reserve and the funded position.

In the event of an unplanned financial disaster which causes the Board to have an unfunded liability, the Board shall exercise appropriate fiduciary responsibility to return the board to a fully funded position. The Board shall examine available options and determine the degree and timing of the measures which will achieve full funding.

C. FULLY FUNDED

The board shall have sufficient net liquid assets to cover the known and projected Claims Benefit Liability.

The board's actuary shall annually determine the Claims Benefit Liability as part of producing the board's audited financial statements.

D. POTENTIAL LIABILITY AND ASSET REPLACEMENT RESERVE

The board shall establish a Potential Liability and Asset Replacement Reserve with the following four components:

(a) CLAIMS DISASTER COMPONENT

Claims Disaster retention limits shall be set by the Board. Where the costs exceed more than the retention limits, the accident shall be deemed to be a disaster.

All costs which exceed the claims disaster retention limits shall be charged to this reserve component. These costs shall be subsequently transferred to the Claims Benefit Liability. The costs shall be also be recorded against the experience account of the employer, and charged to the industry.

The Claims Disaster Component shall be based on 20 percent of the Claims Benefits Liability.

(b) UNKNOWN DISABILITIES COMPONENT

All enhanced disabilities or occupational diseases shall be charged to the Unknown Disabilities Component. These costs shall be subsequently charged to the Claims Benefit Liability.

The Unknown Disabilities Component shall be calculated at 20 percent of the Claims Disaster Component.

(c) ASSET REPLACEMENT COMPONENT

The Asset Replacement Component shall be established to provide funding and to minimize borrowing, or use of existing investments to replace assets when their life is over. The Asset Replacement Component shall be based on the life expectancy of an asset and is equal to the cumulative asset depreciation amount and shall include capital purchases of new computer software.

(d) RATE STABILIZATION COMPONENT

The Rate Stabilization Component shall be established in order to minimize the impact of fluctuations in revenues or expenses on annual assessment rates, and to reduce current assessment rates. The Rate Stabilization Component shall have a minimum and maximum amount established by the Board. Any future operational surplus or deficit shall be charged to the Rate Stabilization Component.

The board shall provide sufficient funding to cover potential unknown claims costs that would seriously impact the Claims Benefit Liability. The Board shall annually review the levels of the reserve components when the audited financial statements are received. The Board shall ensure that the reserve is kept within the agreed minimum and maximum levels.

If rate stabilization components are spent, the Board shall increase assessment rates to minimize the reduction of the unknown claims reserve component.

E. ACTUARIAL ASSUMPTIONS - LIABILITY VALUATION

An actuarial review shall be undertaken every three years. The actuary shall report to the Board on claims experience by class and industry.

The actuary shall advise the Board annually of the actuarial basis for the key assumptions utilized to calculate the claims benefit liability valuation.

F. BUDGETING

The Board shall annually approve the high level balanced budget including any planned use of the Reserve. The high level budget shall contain:

- (a) all projected claims and administration expenses, including Occupational Health and Safety,
- (b) conservative assessment and investment interest or gains, and
- (c) the planned capital purchases for the coming year; and the Board shall decide if any of these capital purchases shall be charged to the Asset Replacement Component of the Reserve.

If planned expenses exceed conservative revenue projections for assessment revenues and investments interest/gains, the Board shall decide whether to approve a rate stabilization contribution or whether to increase assessment rates.

REVIEW CLAUSE

The Funding Policy Statement shall be reviewed once the 1998 audited financial statements are available.

REFERENCES

Workers' Compensation Health and Safety Board:
Budget and Organizational Control Policy Statement
Annuities Policy Statement

Trustee Act

HISTORY

1. Policy, Funding Policy, effective May 14, 1996.