Chapter: Finance
Legislative authority: section 15

Prevention statement

Preventing injuries is one of the most important responsibilities in the workplace. The Workers' Safety and Compensation Act *(the 'Act') establishes the responsibilities of all workplace parties to work together to ensure the physical and psychological health and safety of workers. When injuries do occur, workers and employers must continue to work together to facilitate an injured worker's early and safe return to health and work.*

Purpose

This policy guides the board of directors to ensure a sound financial position is maintained, that fiduciary responsibilities are in accordance with the *Workers' Safety and Compensation Act* and that the board of directors exercises prudence, discretion and intelligence.

Definitions

adverse event means an event with an identifiable cause which affects a number of workers in the same event, resulting in an infrequent, unexpected adverse claims experience

board means the Workers' Safety and Compensation Board

catastrophic event means an event of great and sudden disaster, for example a plane crash where numerous lives are lost

fully funded means the compensation fund is considered fully funded when there are sufficient funds for the payment of all present and future compensation, including the cost of administration. It could also be stated as when the total of all assets equals or exceeds 100 per cent (100%) of total liabilities

latent occupational disease means

a. any disease or disorder where the worker's exposure to the causative agent(s) results in disease that does not manifest itself until several years after the exposure, and the casual links to the workplace were known at the time the exposure occurred; or

b. any disease or disorder where casual links to the workplace were not known at the time the exposure occurred, but are established on the basis of scientific evidence in the future

Policy statement

1. General

The board of directors plays a key role in the financial stewardship of the workers' safety and compensation system. The funding policy establishes a framework that ensures the financial security and sustainability of the 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 reserves protect the system from a variety of risks and uncertainties that could have significant financial implications. The levels of these reserves will be based on amounts necessary to protect the system against these risks and uncertainties.

The Act provides that all money received by the board must be paid into the compensation fund and all expenditures of the board must be paid out of the compensation fund. The board may provide for and maintain reserves to meet future costs that could, in the opinion of the board, adversely affect the compensation fund.

2. Funded position

The compensation fund must be fully funded.

The funded position of the compensation fund is calculated annually, following the release of the board's audited financial statements. The funded position is calculated as prescribed by the Association of Workers' Compensation Boards of Canada (AWCBC) as follows:

$$\textit{Total Assets} \div \textit{Total Liabilities} \times 100 = \textit{Funded Position}$$

In the event of an unplanned financial disaster which causes the board to have an unfunded liability, the board will exercise appropriate fiduciary responsibility to return the compensation fund to a fully funded position.

3. Actuarial valuation

An actuarial valuation must be performed by an actuary to determine the value of the known and projected benefits liability in conjunction with the preparation of the board's annual financial statements.

4. Reserves

The board will establish the following reserves to protect the fully funded position and to stabilize the effect of fluctuations in the board's financial experience on employer assessment rates:

a. Adverse events reserve

i. Purpose

The Adverse Events Reserve is established to provide funding for infrequent, unexpected adverse claims experience and catastrophic events so as to protect employers from the sudden impact of the costs of these types of events.

ii. Amount

<u>Target Level</u>

The target level for this reserve is equal to the following:

Catastrophic component (100 X the maximum wage rate)
+ Adverse Events component (10% of the benefits liability)

The target level is calculated annually upon completion of the actuarial valuation of the benefits liability, which is performed in conjunction with the preparation of annual financial statements.

<u>Operating Range</u>

There is no operating range for this reserve.

iii. Charges

In addition to catastrophic and adverse events, latent occupational disease costs may also be charged to this reserve.

As a guideline, the expected normal statistical fluctuation of the benefits liability is +/- seven and a half per cent (7.5%). If the annual fluctuation in the benefits liability exceeds this range then it is likely that an adverse event has occurred. In such an instance, an investigation is required to identify the cause of the adverse experience. If a cause is identified and meets the aforementioned conditions, then the costs of that event will be charged to this reserve.

iv. Surplus in Funding

This reserve is limited to its target level.

Transfers or additions to this reserve are limited to its target level.

It should be noted that a decrease in the benefits liability can cause a surplus in this reserve because the target level is calculated as a percentage of the benefits liability.

Distribution of a Surplus

In the event of a surplus in this reserve, funds in excess of the target level will be transferred to the Stabilization Reserve.

v. Deficiency in Funding

This reserve has a funding deficiency if it is below its target level.

Transfers cannot be made from this reserve to any reserve if the transfer will reduce this reserve below its target level.

In the event that the drawdown of this reserve exceeds the balance in the fund, then the deficiency will be charged against the Stabilization Reserve.

Recovery of a Deficiency

In the event of a charge against this reserve, the following steps will be taken to replenish the reserve to its target level:

Step 1: Any recovery received in a third party action by the board for the costs of an event charged to this reserve will be added to this reserve, up to the target level.

Step 2: If any third party action recovery received is not sufficient to replenish the Adverse Event Reserve to its target, then any surplus in the Stabilization Reserve will be transferred to the Adverse Events Reserve to replenish it up to its target, if possible.

Step 3: If the excess in the Stabilization Reserve is not sufficient to replenish the Adverse Events Reserve to target, then the Adverse Events Reserve will be replenished by a special assessment premium surcharge.

Step 4: The surcharge will be calculated by the board's actuary in

conjunction with the annual assessment rate setting process.
The assessment premium surcharge will be applied equally across all employers and rating categories.

Step 5: The standard recovery periods for replenishment of the Adverse Events Reserve are outlined in the following table:

Deficiency Amount	Rate Adjustment	Recovery Period
If the total deficiency is less than 5% of the annual assessment revenues	Full	1 year
If the total deficiency is from 5 to 25% of the annual assessment revenues	5%/year	Up to 5 years
If the total deficiency is from 26 to 50% of the annual assessment revenues	1/5th/year	Up to 5 years
If the total deficiency is from 51 to 100% of the annual assessment revenues	10%/year	Up to 10 years
If the total deficiency is greater than 100% of the annual assessment revenues	1/10th/year	10 years

Step 6: In subsequent years, if the Adverse Events Reserve is being replenished by a special assessment premium, but a third party action recovery or a surplus in the Stabilization Reserve becomes sufficient to replenish it, then the third party action recovery or surplus will be used to replenish the Adverse Events Reserve and any special assessment premium surcharges for the Adverse Events Reserve will be cancelled.

b. Stabilization reserve

i. Purpose

The Stabilization Reserve is established to protect the fully funded position of the board and to stabilize the effect of fluctuations on employer assessment rates.

ii. Amount

Target Level
The target level for the Stabilization Reserve is equal to ten per cent (10%) of the benefits liability.

Operating Range
The operating range for the Stabilization Reserve is the target level +/- 3.5% of the benefits liability.

If the reserve balance is above or below the target level but within the operating range, no assessment rate change is required.

iii. Charges

The annual operating surplus/deficiency, excluding the costs of any events charged to the Adverse Events Reserve, represents the normal operating fluctuations in the board's financial performance and will be charged to this reserve; it is a balancing account.

Examples of items to be charged to this reserve include, but are not limited to, the following:

- Annual operating surplus or deficits,
- Investments return fluctuations,
- Random claims experience fluctuations, and
- All other operating fluctuations not charged to other reserves.

iv. Surplus in funding

This reserve is considered to have a surplus when the balance exceeds the top of the operating range. The amount of the surplus is the difference between the reserve balance and its target level.

The potential rebate to an employer of a surplus is triggered when the balance of the reserve exceeds the upper threshold of the operating range and the Adverse Events Reserve is fully funded.

The maximum amount to be rebated is the difference between the reserve balance and its target level.

Distribution of Surplus

In the event of a surplus in this reserve, the following steps will be taken to reduce the reserve to its target level:

Step 1: The position of the Adverse Events Reserve is reviewed. If that reserve is below its target then any surplus in the Stabilization Reserve is transferred to the Adverse Events Reserve, up to the Adverse Events Reserve target, if possible.

Step 2: If the Adverse Events Reserve is fully funded and the balance of the Stabilization reserve exceeds the upper threshold of its operating range then any surplus will be rebated as per Steps 3 and 4.

Step 3: The assessment premium rebate will be calculated by the board's actuary in conjunction with the annual assessmentrate setting process. The rebate percentage will be applied equally across all employers and rating categories.

Step 4: The rebate schedule is outlined in the following table:

Surplus Amount	Rate Adjustment	Recovery Period
If the total surplus is less than 5% of the annual assessment revenues	Full	1 year
If the total surplus is from 5 to 25% of the annual assessment revenues	5%/year	Up to 5 years
If the total surplus is from 26 to 50% of the annual assessment revenues	1/5th/year	Up to 5 years
If the total surplus is from 51 to 100% of the annual assessment revenues	10%/year	Up to 10 years
If the total surplus is greater than 100% of the annual assessment revenues	1/10th/year	10 years

v. Deficiency in Funding

This reserve has a funding deficiency when the balance is below the target level. The amount of the deficiency is the difference between the reserve balance and its target level.

The replenishment of the deficiency is triggered when the balance of the reserve is below the lower threshold of the operating range.

The maximum amount to be replenished is the difference between the reserve balance and its target level. Note that surplus transfers in from the Adverse Events Reserve could reduce the required recovery.

If the balance of the Stabilization Reserve drops below zero then the reserve balance is considered to be $0.00 and a funding deficiency is identified.

Recovery of Deficiency

In the event that this reserve falls below its operating range, the following steps will be taken to replenish the reserve to its target level:

Step 1: Any surplus in the Adverse Event Reserve will be transferred to the Stabilization Reserve, up to the Stabilization Reserve's target level, if possible.

Step 2: Any remaining deficiency will be replenished up to the Stabilization Reserve's target level by a special assessment premium surcharge.

Step 3: The surcharge will be calculated by the board's actuary in conjunction with the annual assessment rate setting process. The surcharge percentage will be applied equally across all employers and rating categories.

Step 4: The replenishment schedule is outlined in the following table:

Deficiency Amount	Rate Adjustment	Recovery Period
If the total deficiency is less than 5% of the annual assessment revenues	Full	1 year
If the total deficiency is from 5 to 25% of the annual assessment revenues	5%/year	Up to 5 years
If the total deficiency is from 26 to 50% of the annual assessment revenues [1]	1/5th/year	Up to 5 years
If the total deficiency is from 51 to 100% of the annual assessment [2]	10%/year	Up to 10 years

Deficiency Amount	Rate Adjustment	Recovery Period
If the total deficiency is greater than 100% of the annual assessment revenues	1/10th/year	10 years

5. Annual allocation to the reserves

The allocation of annual operating surpluses or deficits to the reserves will be determined as follows:

a. Calculate the target levels for both reserves and the Stabilization Reserve's operating range.

b. The annual operating surplus or deficit is transferred to the Stabilization Reserve.

c. Any costs identified as related to adverse events are transferred from the Stabilization Reserve to the Adverse Events Reserve.

d. Determine the status of the Adverse Events Reserve and act accordingly.

e. Determine the status of the Stabilization Reserve and act accordingly.

f. Balances in other funds or reserves may be applied against the Stabilization Reserve in calculating its balance when deficiencies in this reserve are temporary in nature.

g. In determining the balance in the Stabilization Reserve the difference between the market value and book value of any real estate assets may also be included in calculating the Stabilization Reserve balance when deficiencies are temporary in nature.

6. Rebate/credit/abatement/additional assessment

In addition to other measures taken under this policy, if, in the opinion of the board of directors, the amount available in the compensation fund is

a. sufficient to meet the current and future costs, the board may abate, credit or rebate the assessments or defer their collection; or

b. insufficient to meet the current and future costs, the board may take any steps it considers necessary to deal with the insufficiency, including making special or additional assessments.

7. Board of Directors review

The board of directors will review the reserves annually when the audited financial statements are available. The board of directors will ensure that the reserves are kept within the agreed minimum and maximum levels.

The board of directors will review the adequacy of the reserve levels in conjunction with the actuary's review of the board's benefits liability methods and assumptions.

History

FA-05 Funding Policy, effective October 27, 2009, revoked July 1, 2022

FN-05 Funding Policy, effective October 14, 2008, revoked October 27, 2009

FN-05 Funding Policy, effective July 1, 2008, amended October 14, 2008

FN-07 Funding Policy Statement, effective May 14, 1996, amended September 27, 2005, revoked July 1, 2008