

WORKPLACE SAFETY AND INSURANCE BOARD FUNDING POLICY

Policy

The *Workplace Safety and Insurance Act, 1997* (WSIA) requires the Workplace Safety and Insurance Board (WSIB) to maintain the insurance fund such that the amount in the fund is sufficient to meet its obligations under the WSIA, to make payments to injured workers and their survivors when they come due, and to provide for future benefits.

The WSIB will make funding decisions based on this policy, in support of achieving, with enhanced assurance, the regulated Sufficiency Ratio requirements defined in *Ontario Regulation 141/12*, as follows:

- 60% by December 31, 2017;
- 80% by December 31, 2022; and
- 100% by December 31, 2027.

Purpose

The purpose of this policy is to provide direction to the WSIB in making funding decisions to provide for the costs of the workers' compensation system through employer premiums and investment earnings. This Policy further provides guidance to the development and maintenance of a sufficiency plan, and the setting of premium rates.

Guidelines

Definitions

Employee benefit plan: refers to the benefits and pensions provided to the employees of the WSIB.

Enhanced assurance: represents a high degree of confidence in achieving the regulated Sufficiency Ratio requirements and maintaining full funding once reached, as determined by periodic asset-liability studies.

Full funding: represents the level of funding sufficiency that provides enhanced assurance that the Sufficiency Ratio will not fall below 100%.

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Funding decision(s): refer to decisions that impact the revenues generated by the WSIB as they relate to, but are not limited to: premium rates; allocation of costs for claims, the unfunded liability and administration; and investments.

New claims cost: defined as the current and capitalized future costs of expected new claims incurred during the year, including future claims administration costs associated with these claims.

Non-controlling interests: represent the WSIB employees' pension plan and other investors' proportionate interest of the net assets and comprehensive income of subsidiaries of which the WSIB directly or indirectly owns less than 100%.

Sufficiency plan: is the plan, submitted by the WSIB to the Minister of Labour by June 30, 2013 and updated as required, that illustrates the WSIB's approach to achieve the sufficiency requirements set out in *Ontario Regulation 141/12*.

Sufficiency Ratio: is defined as the WSIB's total assets less non-controlling interest divided by the total liabilities.

Sufficiency statement: is a statement published quarterly by the WSIB, which presents the Sufficiency Ratio.

Total assets: consist of all assets reported on the WSIB's sufficiency statement.

Total liabilities: consists of all liabilities reported on the WSIB's sufficiency statement.

Unfunded liability: is the amount by which the total assets less non-controlling interests is less than total liabilities. If total assets less non-controlling interests equals or exceeds total liabilities, the unfunded liability shall equal zero dollars.

Guiding Principles

In order to ensure that the overall objective of ensuring that the system is sufficiently funded, the WSIB may exercise its discretion in balancing the guiding principles appropriately.

The WSIB considers the following guiding principles when making funding decisions:

Collective liability: employers must collectively pay the premiums required each year to maintain the WSIB Insurance Fund such that the amount in the fund is sufficient to meet its obligations under the WSIA, to make payments to injured workers and their survivors when they come due, and to provide for future benefits.

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Fair and reasonable allocation of aggregate costs: aggregate premiums will be allocated among employers based on expected costs incurred, taking into account the allocation of any unfunded liability.

Stability of premiums: annual premiums will be as stable as possible, taking account of the required Sufficiency Ratios under *Ontario Regulation 141/12*.

Transparent & understandable: ease of understanding will be a primary component of funding decisions, including methodology and process. This will facilitate clear, transparent communication of funding decisions.

Financial Security: The WSIB will act in a financially prudent manner in support of the sustainability of the workers' compensation system.

Governance

General

The WSIB retains the sole authority and responsibility for funding decisions, including the development and maintenance of a sufficiency plan as required by the WSIA and the setting of premium rates.

Board of Directors

The WSIB Board of Directors is responsible for the following:

- The approval of all funding decisions;
- Approving the recommended target funding level required to ensure enhanced assurance of maintaining 100% Sufficiency Ratio after consideration of the Chief Actuary's recommendation and advice of WSIB management;
- The approval and final determination of premium rates, after consideration of the Chief Actuary's recommendation and advice of WSIB management on premium rate requirements, including the disclosure of the rationale supporting their decision.

The WSIB Board of Directors will consider the following factors when making funding decisions:

- The information and analysis provided by WSIB management and the Chief Actuary;
- The guiding principles set out in this policy, and any analysis required to appropriately balance the guiding principles, as required;

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- The relevant Sufficiency Ratio requirements under *Ontario Regulation 141/12* and any progress reported as part of the sufficiency plan;
- All other relevant information submitted to the Board of Directors.

Chief Actuary

The Chief Actuary is responsible for the following:

- Providing recommended premium rate requirements and the associated analysis for the upcoming fiscal year (or years) directly to the Board of Directors for their consideration and approval; and
- Recommending the target level of funding to achieve enhanced assurance of maintaining a 100% Sufficiency Ratio.

In developing these recommendations, the Chief Actuary will be expected to take account of the WSIB's financial position, to test such adverse scenarios as (s)/he judges appropriate, and to take account of other considerations as may be judged relevant.

WSIB Management

WSIB management is responsible for the objective policy, strategic and operational analysis for all decision-making and actions associated with this policy, including external independent advice, as appropriate.

Premium Rate Setting

Premium rates will be set in accordance with the provisions of the WSIA and this policy.

Premium rate setting projections will be based on prudent assumptions, reflecting the Sufficiency Ratio and the requirement to provide enhanced assurance that the WSIB will meet the Sufficiency Ratio requirements pursuant to *Ontario Regulation 141/12*.

Premium rate-setting decisions will support the requirement to achieve and maintain full funding. Should the Board's confidence level of maintaining a 100% Sufficiency Ratio, or intermediate regulated Sufficiency Ratio requirements as applicable, fall below that required for enhanced assurance, premium rate-setting decisions will incorporate a trajectory to return to enhanced assurance within five years.

The WSIB reserves the right to adjust premium rates and consider other funding-related actions according to the fluctuating financial position measured by the Sufficiency Ratio.

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Further, premium rate-setting decisions will take into account the following factors:

1. New claims costs;
2. Administrative costs expected to arise during the year, including legislative obligations and claims adjudication costs;
3. Retirement of any unfunded liability;
4. Impact of gains or losses to the benefit liability;
5. The enhanced assurance of achieving and maintaining the Sufficiency Ratio requirements under *Ontario Regulation 141/12*, and the WSIB's established trajectory to achieve full funding, as approved by the Board of Directors;
6. Impact of gains and losses on investments; and
7. Any other factor(s) deemed relevant to the maintenance of financial prudence.

Funding of New Claims Costs

The Chief Actuary's recommendation on premium rate requirements to the Board of Directors will reflect full funding of expected new claims costs.

Unfunded Liability Apportionment

The WSIB's unfunded liability will be considered in the premium rate setting process, and be included in the Chief Actuary's recommendation on premium rate requirements to the Board of Directors.

The unfunded liability charge is determined for Schedule 1 employers as a collective whole; employers will pay their appropriate share based on their classification.

Determining Sufficiency

Valuing WSIB Assets

The WSIB will report assets on the sufficiency basis, consistent with *Ontario Regulation 141/12* in accordance with going concern principles.

Valuing WSIB Liabilities

The WSIB will value its Insurance Fund and the liabilities of the Employee Benefit Plans using a discount rate that is determined with reference to the long term expected return on investments, consistent with actuarial standards as defined by the Canadian Institute of Actuaries. Other assumptions with respect to liabilities will be made using the Chief Actuary's best estimate in accordance with actuarial standards.

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All other liabilities will be valued at market.

Treatment of Gains and Losses

The WSIB will reflect asset gains and losses as follows:

- On a going concern basis, investment assets are valued at fair value adjusted for unamortized gains or losses relative to the long-term expected rate of return on those assets, less the interests in those assets held by third parties, as represented by the balance of non-controlling interests. Any differences between the long-term expected rate of return on assets and actual returns will be amortized into the Sufficiency Ratio over a period of five years, on a straight-line basis.

The WSIB will reflect liability gains and losses as follows:

- Any gains and losses to the benefit liability will be recognized in accordance with accepted actuarial standards of practice.

In assessing the impact of gains and losses arising from proposed or actual changes to legislation or regulations, WSIB management will, to the extent possible, conduct an analysis and provide such to the Board of Directors and the Ministry of Labour.

Effective Date

This policy applies to all funding decisions made on or after October 29, 2015.

Policy Review Schedule

This policy will be reviewed within five years of the application date, and consider amendments within the review schedule as required and appropriate.

Legislative Authority

Workplace Safety and Insurance Act, 1997, as amended.

Sections 81, 82, 83, 85, 87, 88, 96, 96.1, 96.2, 96.3 97, 98, 99, 100.

Ontario Regulation 141/12