RESEARCH SNAPSHOT

July 2023

Funding Fairness: State of Workers' Compensation Funding

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Introduction

Rising cost constraints over the past year have narrowed many small businesses' already thin margins. At the same time, several provincial/territorial workers' compensation boards/commissions (hereinafter referred to as "boards") are in an overfunded position, meaning boards have exceeded their desired funding target. Boards are entirely funded through employer-paid premiums and investment earnings. Therefore, it is only fair that any surplus amounts collected be directly returned to employers, 72% of whom cite payroll taxes as the most harmful type of tax to their business[1].

Boards have differing approaches on how they redistribute surpluses back to small businesses; some reduce premiums, while others provide discretional rebates. Only the Ontario government has legislated mandatory rebates under set targets. According to the latest data, five provincial/territorial boards are overfunded. If all five overfunded boards provided direct rebates, it would result in a $3 billion boost for small businesses. That funding could be game-changing for businesses, particularly at a time when 60% are still paying back pandemic-related debt averaging $126,000 and only 44% are back to pre-pandemic revenue.[2] Returning excess funds to businesses would allow them to pay down debt, reinvest in their employees and expand their operations.

This snapshot will provide an overview of the latest funding levels of provincial/territorial boards, and highlight the potential benefits that direct rebates would provide to small businesses across Canada.

[1] CFIB, Your Voice – April 2023 survey, April 5-21st, 2023, total responses = 1,484.
[2] CFIB, Your Voice – May 2023 survey, May 4-24, 2023, total responses = 1,131.

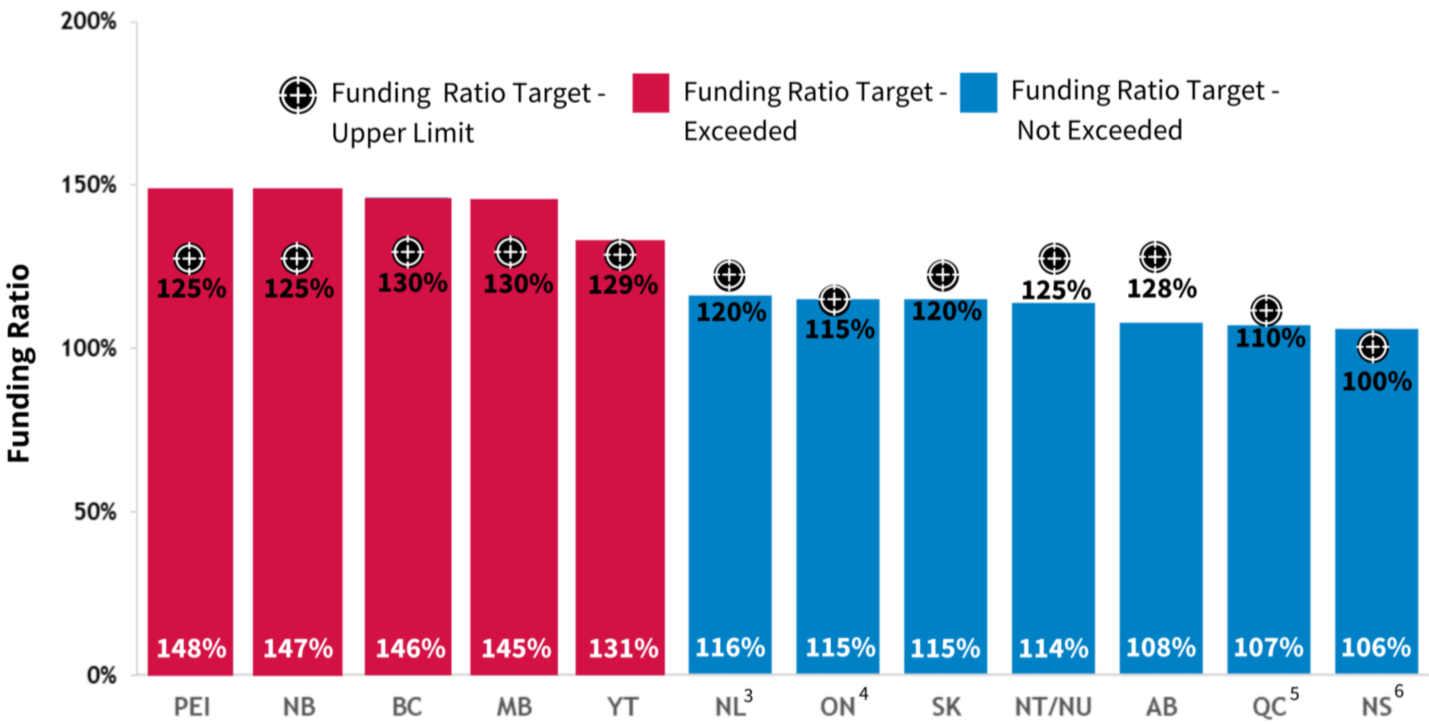
Funding Positions

Boards determine a target funding position/ratio by establishing a threshold in relation to their total assets (investments, property, cash, and cash equivalents) compared to their total liabilities (benefit liabilities, employee benefits, and long-term debt). Target ratios are often set to either 100% or higher, or a range above 100%. Funds above 100% are meant to provide a buffer to cover unforeseen events and to account for market swings. If a board's financial position exceeds its target funding goal, it means there is a surplus. This implies the board has more funds than required to cover its expenses, including unforeseen costs. For an overfunded board, the surplus amount is the difference between the fund balance (assets minus liabilities) and its target. The latest data indicates that five boards are in an overfunded position — British Columbia, Manitoba, New Brunswick, Prince Edward Island, and Yukon (see Figure 1).

Figure 1:

According to the latest available data, five boards are in an overfunded position

Latest[1] Funding Position[2] of Workers' Compensation Board



Funding Ratio Target %	100-125	115-125	130	130	121-129	110-120	110-120	105-120	125	114-128	110	100

Source: Workers' Compensation Boards.

Notes:

1. 2022 Funding ratio: YT, BC, AB, SK, MB, ON, QC, PEI, NL. 2021 Funding ratio: NT/NU, NB, NS.
2. Funding ratio is based on total assets to total liabilities, except for BC (smoothed accounting basis), SK and ON (sufficiency basis).
3. Funding policy specifies a funding target operating range from 100% to 120%, with a target of 110%.
4. Based on the third quarter 2022 sufficiency ratio, Ontario's funding level is 115.4%. If the sufficiency ratio is equal to or greater than 115% and less than 125%, the Board may distribute any amount in excess. The board is considered within its funding target, taking into account that minor fluctuations do not immediately require corrective actions. In this situation, the term 'upper limit' represents the threshold at which surplus distributions can be considered (i.e., above the mid-point of the funding ratio target range).
5. Quebec reported a funding ratio of 135.7%. As we do not have the details of the calculation for this ratio, CFIB reports on the total assets to total liabilities, which explain the difference between CFIB rate and the one calculated by the board.
6. In Nova Scotia the unfunded liability was eliminated in 2020. At this time, the 100% funding ratio indicates the board's commitment to eliminate its unfunded liability. Going forward the board will develop funding parameters.

Managing Overfunded Positions — Surplus Distribution Policies

Funding surpluses can be the result of several factors, including efficient health and safety practices, successful return-to-work outcomes, sound financial management, and/or favourable returns on investments. Depending on their distribution policies, overfunded boards may rebate surplus funds or lower premiums to bring their funding positions back in line with their targets.

Nine of the twelve boards have a policy to return funds to employers — Yukon, Northwest Territories/Nunavut, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick, Prince Edward Island, and Newfoundland and Labrador (see Table 1). The funding ratio at which rebates are provided to employers differs from board to board. Prince Edward Island and Newfoundland and Labrador boards have the highest threshold (above 140%), while Ontario has the lowest discretionary rebate (ratio that is equal to or greater than 115% and less than 125%). In Quebec, there is a capitalization policy in place to regulate the management of accumulated surpluses and deficits. The objective of this policy is to establish mechanisms to amortize the accumulated surpluses and deficits, which helps determine the premium rates for businesses. Ontario remains the only province to legislate a mandatory rebate distribution which occurs when the funding is at least 125% — CFIB continues to encourage other boards to follow this example[3].

Table 1

Nine of the twelve boards have a policy to return funds to employers

Surplus Distribution Policies, Workers' Compensation Boards, by Jurisdiction[1]

	YT	NT/NU[2]	BC[3]	AB	SK	MB	ON[4]	QC[5]	NB	NS[6]	PEI[7]	NL[8]
Rebate Policy exists — Yes/No	Yes	Yes	No	Yes	Yes	Yes	Yes	Na	Yes	No	Yes	Yes
Funding ratio for rebate %	Above 129%	Above 135%	Na	Above 128%	Above 122%	Above 130%	At least 115%	Na	Above 125%	Na	Above 140%	Above 140%

Source: Workers' compensation boards

Notes:

1. Boards can use their own discretion in deciding whether to issue a rebate and its amount.
2. Discretionary rebate if funded ratio exceeds 135% for two successive years.
3. Excess funds are used to discount premium rates.
4. Discretionary rebate if funded ratio is equal to or above 115%, mandatory rebate if funded ratio is at least 125%.
5. Excess funds are used to discount premium rates.
6. In 2020, the board eliminated the unfunded liability, going forward the aim is to develop funding parameters (i.e., upper and lower thresholds).
7. If funded ratio is between 125% and 140%, the board will adjust annual revenue requirements, based on assessment rate adjustments.
8. Premium rate reduction if funded ratio is greater than 120%, but less than 140%.

[3] Legislative Assembly of Ontario, Bill 27, Working for Workers Act, 2021. https://www.ola.org/en/legislativebusiness/bills/parliament-42/session-2/bill-27#BK8

Potential Rebates for 2023

At a time where small businesses are seeing the cost of almost everything rising, the potential of having surplus funds returned through a direct rebate would help many small businesses as they try to keep up with inflation, pay down pandemic-related debt, and recover from the pandemic.

Table 2 shows that if overfunded boards were to return all funds accumulated beyond the upper bound of their target ratio, the total potential rebate to employers would translate to over $3 billion. At a provincial level, the highest rebates would occur in British Columbia ($2.5 billion), New Brunswick ($289 million), Manitoba ($190 million), Prince Edward Island ($35 million), and the Yukon ($3 million).

Table 2

Rebating excess funds to employers would translate to over $3 billion

Potential Total Rebate for 2023, Over-funded Boards Only, by Jurisdiction[1]

	Funding ratio — %[2]	Difference between total assets and total liabilities — $ million[3]	Upper limit of funding ratio %	Potential total rebate at upper limit of funding ratio — $ million
YT	131%	$59	Above 129%	$3
BC	146%	$7,023	Above 130%	$2,532
MB	145%	$604	Above 130%	$190
NB	147%	$640	Above 125%	$289
PEI	148%	$78	Above 125%	$35
CAN	**142%**	**$8,404**	**na**	**$3,049**

Sources and notes:

1. Only boards with funding positions that are beyond the upper bound of their target funding (overfunded) are included.
2. Ratio of total assets over total liabilities.
3. CFIB calculation, may not sum to total due to rounding.

Potential Rebates Per Employee

A breakdown of potential rebates per employee shows that the highest rebates would take place in British Columbia ($967), New Brunswick ($876), Prince Edward Island ($444), Manitoba ($383), and Yukon ($101) — see Table 3. For a business with five employees, the potential rebates could be in the thousands of dollars — British Columbia ($4,835), New Brunswick ($4,380), Prince Edward's Island ($2,220), Manitoba ($1,915) and the Yukon ($505). It is important to note that surplus rebates would not be limited to the private sector but would include public sector employers subject to workers' compensation.

Table 3

British Columbia, New Brunswick, and Prince Edward Island have the highest potential rebate per employee

Potential Rebates to Employers for 2023, Over-funded Boards Only, by jurisdiction[1]

	Potential rebate for an employer with one employee[2]	Potential rebate for an employer with five employees[3]
YT	$101	$505
BC	$967	$4,835
MB	$383	$1,915
NB	$876	$4,380
PEI	$444	$2,220
CAN	$859	$4,295

Source: Workers' compensation boards

Notes:

1. Only boards with funding positions that are beyond the upper bound of their target funding (overfunded) are included.
2. CFIB calculation based on covered workers. Amount shown is an average, and assumes all premiums are equal. Actual rebate will depend on industry classification of employees, among other criteria.
3. For illustration purposes. A typical small business has 5 employees.

Follow the Lead: Setting the Precedent for Employer Rebates

Ontario ($1.2 billion)[4], Manitoba ($95 million)[5], and Prince Edward Island ($22 million)[6] returned a portion of their 2021 surplus funding to small businesses in their province through direct rebates. However, in their most recent results for 2022 funding levels, Manitoba announced they will not be providing rebates to employers in 2023 even though their funding ratio was 145% — well-above their own funding target of 130%. Also, Prince Edward Island has yet to announce a rebate despite exceeding their target of 125% in 2022. CFIB encourages the five boards that are presently overfunded to follow the path of employer rebates. The most effective way to deliver these rebates would be by legislating mandatory rebates when funding levels exceed a board's respective target, ensuring a transparent and straightforward process.

Surplus Rebates Preferred Over Premium Reductions

Unfortunately, not all boards have funding policies that allow direct rebates returning surpluses to employers. Policies in British Columbia, New Brunswick, Newfoundland and Labrador, and Quebec dictate that these boards may only use surplus amounts to reduce premiums. Small businesses would far rather have their funds returned through rebates, allowing them to immediately direct those funds

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[4] "Surplus Rebate for Businesses," WSIB Ontario (WSIB Ontario), accessed April 10, 2023, https://www.wsib.ca/en/rebate.
[5] "WCB Distributes $95 Million in Surplus Funds to Manitoba Employers," (Workers Compensation Board of Manitoba), https://www.wcb.mb.ca/wcb-distributes-95-million-in-surplus-funds-to-manitoba-employers.
[6] "2022 Surplus Distribution," Workers Compensation Board of PEI announces 2022 rates and surplus distribution to employers (Workers Compensation Board of PEI announces), accessed April 10, 2023, https://www.wcb.pe.ca/surplus.

back to their business through investments, paying down debt, attracting labour, creating jobs, etc. Simply put, direct rebates would have an immediate positive impact at a time when many businesses cannot afford to wait.

Of the overfunded boards that use excess funds to reduce premiums, only two provinces saw a reduction in average premiums in 2023 — New Brunswick reduced average premiums by $0.38, and Prince Edward Island by $0.06.[7] At the same time, British Columbia one of the boards with the highest funding ratios, has not sent any rebates to employers or seen any reduction in premium rates for six years.

Conclusion and Recommendations

Boards must ensure a balanced and fair approach regarding their funding ratios. Rather than using employer funds to accumulate large surpluses, boards should return these funds to small businesses that could put these additional funds to better use. CFIB suggests the following recommendations for workers' compensation boards across the country:

- Rebate surplus funds to employers or lower employer premiums, if funding ratio exceeds its target funding, with a stronger preference for a rebate to eligible employers.
- Legislate surplus distribution policies.
- Implement mandatory distribution policies.

[7]"Provisional Average Assessment Rates," Association of Workers' Compensation Boards of Canada, n.d., https://awcbc.org/en/summary-tables/assessments-premiums/provisional-average-assessment-rates/.