Research Snapshot

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Finding Funding Fairness in Workers' Compensation

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Workers' compensation insurance is entirely funded through mandatory employer[1] premiums and investment earnings. Ideally, provincial/territorial workers' compensation boards[2] should aim to adequately balance their funding to protect the compensation benefits of injured workers in the long-term, while at the same time preventing the volatility of premiums or overcharging employers. Achieving a fair and balanced funding position has proven difficult for most boards. This is highlighted by the fact that at the end of 2016 the excess funds accumulated by boards totalled nearly $6.8 billion[3], signalling that boards may be being overly cautious in their funding approach. The effect of accumulating excess funds by boards deprives employers of crucial resources that could be productively re-invested in their businesses. For a small business owner with five employees, the return of excess funds could on average provide $5,945 of additional available funds. This brief report focuses on the funded position of workers' compensation boards across the country as a way to shed light on this situation.

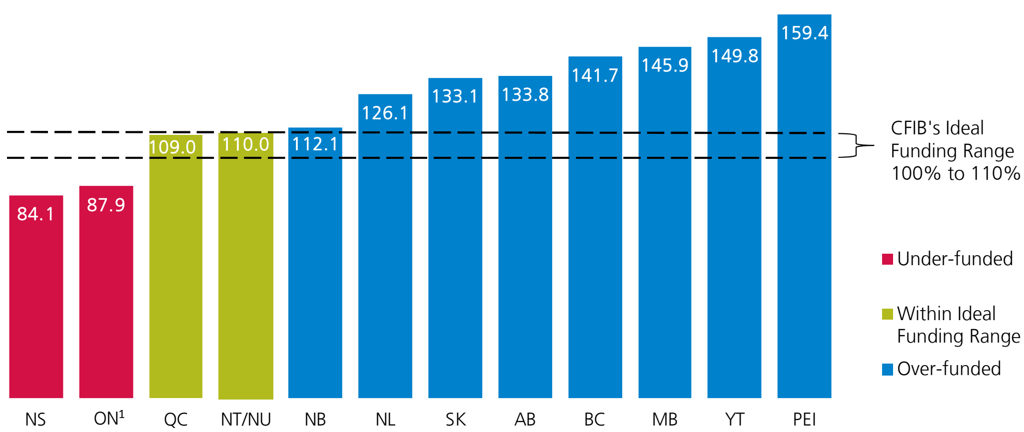
Funded Positions in 2016

The Canadian Federation of Independent Business (CFIB) concluded in its 2011 *Small Business Workers' Compensation Index*[4] that the ratio between a board's total assets and total liabilities (funding ratio) should fall within the range of 100% to 110%. A board with a ratio of total assets to total liabilities exceeding 110% is over-funded (see Figure 1). This range helps to reduce the impact of potential year-to-year fluctuations and ensures that a balance is achieved between adequate funding and accurate assessment to employers. This would also assure employers that the board's financial position is sound, but not overly cautious. The relevance of this ratio is highlighted by the fact that the funding policy of five of the twelve boards—Quebec, New Brunswick, Nova Scotia, Newfoundland and Labrador, and Prince Edward Island—already specify a funding goal within this range (see Appendix – Table 1).

At year-end 2016, eight of twelve boards in Canada were over-funded. Among these, the boards in Prince Edward Island (159.4%), Yukon (149.8%), and Manitoba (145.9%), and British Columbia (141.7%) were among the most over-funded.

Figure 1

Funding position* of workers' compensation boards, by province/territory, 2016 (%)



*Ratio of total assets over total liabilities

1. Ontario's funding level of 87.9 per cent is due to the Workplace Safety and Insurance Board's Unfunded Liability (UFL) of $4 billion (end of 2016). In 2011, the UFL had reached $14.2 billion. Since then, the WSIB has been systematically reducing the UFL and will eliminate it (i.e., achieve full funding) by 2020. This significant progress in reducing the UFL resulted in the first premium rate reductions in 15 years.

Source: Workers' compensation boards.

Over-funded positions are damaging to small and medium-sized employers. For small business owners, premiums are a tax on payroll that must be remitted to a board regardless of an employer's profitability or financial standing. As such, over-funded positions indicate that employers are being overtaxed by having to pay unnecessarily high premiums. This results in employers having less available funds to grow their business, which could mean new and safer equipment, hiring new employees, pay increases to help retain valued employees, training current employees, or improving customer service. Given the harmful attributes of an over-funded position, it is truly alarming that such a large proportion of boards are in this situation.

Managing Over-funded Positions

To bring their over-funded positions back in-line, boards can take measures such as lowering employer premiums or issuing surplus rebates directly to employers. Since small businesses typically operate on small margins and highly competitive markets, the practice of surplus rebates for employers is not only fitting, but a preferred option. This would allow the immediate and effective use of funds inside their business. Futher, a rebate provides money back to those businesses that have paid into the fund, whereas a reduction in premiums uses those funds to reduce costs for businesses which have yet to pay into the system. While lowering employer premiums is a suitable practice, it should be noted that this can affect the stability and predictability of the rate setting process and create uncertainty for employers.

Surplus rebates

Seven boards—Yukon, Northwest Territories and Nunavut, Alberta, Saskatchewan, Manitoba, Newfoundland and Labrador, and Prince Edward Island—have a rebate policy in place (see Table 1). The funding ratio at which rebates are triggered differs from board to board. In all cases, the ratio is well beyond the upper limit of CFIB's ideal range (110%), with the highest ratio belonging to board in Newfoundland and Labrador (140%). It should also be noted that all boards can use their own discretion in deciding whether or not to issue a rebate.

Table 1

Rebate policies, Workers' compensation boards, by province/territory

	YT	NT/NU	BC	AB	SK	MB	ON	QC	NB	NS	NL	PE
Rebate policy exist—Yes, No	Yes	Yes	No	Yes	Yes	Yes	No	No	No	No	Yes	Yes
Funding ratio for rebates—%[1]	125	135	na	128	122[2]	130	na	na	na	na	140	130

1. Based on ratio of total assets over total liabilities.
2. Funding percentage for rebates is 122% of benefit liabilities.
Source: Workers' compensation boards

If all over-funded boards were to return the funds accumulated beyond a 110% funding ratio at the end of 2016, the total potential refund to employers would translate into nearly $6.8 billion nationally (see Table 2). At a regional level, the highest rebates would occur in British Columbia ($3.8 billion), Alberta ($1.9 billion), Manitoba ($470 million), and Saskatchewan ($335 million).

Table 2

Potential total rebate for 2016, Over-funded workers' compensation boards only*, by province/territory

	YT	BC	AB	SK	MB	NB	NL	PE	CA
Funding ratio at year-end 2016—% [1]	149.8	141.8	133.8	133.1	145.9	112.1	126.1	159.4	136.9
Difference between total assets and total liabilities at year-end 2016—$ million[2]	75	5,003	2,658	480	601	172	291	98	9,378
Potential total rebate (amount of excess surplus from 110% funding ratio)—$ million[2]	60	3,805	1,871	335	470	30	180	82	6,831

*Boards that are not over-funded are not shown
1. Ratio of total assets over total liabilities.
2. CFIB calculation, may not sum to total due to rounding.
Source: Workers' compensation boards

A breakdown of potential rebates per employee shows that the highest rebates would take place in the Yukon ($2,761), British Columbia ($1,633), Prince Edwards Island ($1,114), Alberta ($992), Manitoba ($960), and Saskatchewan ($796)—see Table 3. For a business with five employees, the potential rebates could be in the thousands of dollars—Yukon ($13,805), British Columbia ($8,165), Prince Edward Island ($5,570), Alberta ($4,960), and Manitoba ($4,800), and Saskatchewan ($3,980). 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

Potential rebates to employers for 2016, Over-funded workers' compensation boards only*, by province/territory

	YT	BC	AB	SK	MB	NB	NL	PE	CA
Potential rebate for an employer with one employee[1]— $	2,761	1,633	992	796	960	100	791	1,114	1,189
Potential rebate for an employer with five employees[2]— $	13,805	8,165	4,960	3,980	4,800	500	3,955	5,570	5,945

*Boards that are not over-funded are not shown (i.e. ratio of total assets over total liabilities does not exceed 110%).
1. CFIB calculation based on covered workers in 2016. Figure shown is an average, and assumes all premiums are equal. Actual rebate will depend on industry classification of employees.
2. For illustration purposes. A typical small business has 5 employees.

Source: Workers' compensation boards.

Conclusion and Recommendations

For the benefit of both employers and employees, it is critical that workers' compensation insurance operates effectively and with reasonable costs. Further, boards should ensure that their financial obligations associated with payment of current and future worker's benefits are met, but they should not be overly cautious and accumulate larger surpluses that can be put to better use by businesses. For this purpose CFIB offers the following recommendations:

- Workers' compensation boards should work towards establishing and adhering to a funding range of 100% to 110% (total assets over total liabilities) in order to ensure sound management of employer finances.
- Lower employer premiums or rebate surplus funds to employers, if funding ratio exceeds 110%, with a stronger preference for a rebate to eligible employers.

Appendix

Table 1

Boards with funding target ratios between 100%-110%, Workers' compensation boards, by province/territory

	YT	NT/NU	BC	AB	SK	MB	ON	QC	NB	NS	NL	PE
Board's funding ratio target—%[1]	125	125	145[2]	114 - 128	133.1[3]	130	115 – 125[4]	95 - 110	100 - 110	100	110	100 -110
Within CFIB's ideal funding ratio (100% to 110%)—Yes, No	No	No	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes

1. Based on a comparison between total assets relative to total liabilities.
2. BC measures financial adequacy using a ratio of total assets to a specific target level of assets. The long-term goal for this performance indicator is 100% of the target assets, which equates to an expected funded level of about 145% of assets over liabilities.
3. Targeted range is 105% to 120% of benefit liabilities. For 2016, the funding percentage was 118.7%, within this target range. The funding position of 118.7% equates to a funded level of 133.1% of assets over liabilities.
4. Target range between 115% to 125% is measured on a sufficiency basis.
Source: Workers' compensation boards.

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[1] Assessable payroll for assessable employers.

[2] The term "board(s)" refers to either workers' compensation board or commission.

[3] Excess surplus is the amount of funds accumulated beyond 110% funding ratio (total assets to total liabilities).

[4] Cruz, Marvin, et al. *Small Business Assessment of Workers' Compensation.* Canadian Federation of Independent Business. 2011.