

POLICY NUMBER: POL-136

**Chapter:
FINANCE AND ADMINISTRATION**

**Subject:
FUNDING POLICY**

**Effective Date:
August 6, 2007**

**Last Update:
August 30, 2018**

PURPOSE STATEMENT:

The purpose of this policy is to explain how the Workers Compensation Board achieves and maintains a fully funded status.

REFERENCE:

Workers Compensation Act R.S.P.E.I.1988, Cap. W-7.1, Section 35, 60, 62, 63(1), (2)
Workers Compensation Board Policy, POL-23, Setting Assessment Rates
Workers Compensation Board Policy, POL-36, Investment of Board Funds

DEFINITION:

In this policy:

“Fully funded” means the total assets of the Workers Compensation are equal to or greater than the total liabilities of the Workers Compensation Board.

“Funding status” means the total assets of the Workers Compensation Board expressed as a percentage of total liabilities of the Workers Compensation Board.

POLICY:

1. The Workers Compensation Board is committed to achieving and maintaining the financial position of fully funded.

A fully funded compensation system is essential for securing financial obligations associated with the payment of current and future worker benefits and the administration of an effective workers compensation system.

Fully Funded Liabilities

2. The Workers Compensation Board will set employer assessments at a level sufficient to provide for all current and future worker benefits for accidents which may occur in that year. The current and future benefit costs associated with any accident year are estimated in advance of that accident year using actuarial methods and assumptions.

The Workers Compensation Board will use professional actuarial services to determine benefit cost estimates. However, accident and/or claims cost experience outside the estimated range may result, and therefore impact the funding status of the Workers Compensation Board.

3. A necessary consequence of fully funded liabilities is the collection of funds in excess of those required for the immediate payment of worker benefits. Excess funds will be invested as outlined in Workers Compensation Board policy, POL-36, "Investment of Board Funds," and a reasonable return on investment assumption will be incorporated into actuarial benefit liability assumptions.

The Workers Compensation Board investments will be reported using market value for the purpose of determining any impact on employer assessments. Market fluctuations may result, and therefore impact the funding status of the Workers Compensation Board.

4. Events, including a change in actuarial assumptions or legislative changes, are outside normal day-to-day impacts on the liabilities of the Workers Compensation Board. Such events, however, may happen once every few years and therefore have an impact on the funding status of the Workers Compensation Board.
5. In recognition of potential impacts on the liabilities of the Workers Compensation Board, the Workers Compensation Board will use a set of guiding principles to ensure a

review of funding status is included in the determination of annual employer assessment revenue requirements.

Guiding Principles

6. The primary goals of the funding policy are to:
 - Minimize the risk of becoming unfunded, thereby ensuring there is sufficient money available for payment of current and future worker benefits;
 - Minimize cost volatility for employers so the overall average assessment rate for the current year will not vary significantly over the previous year's overall average assessment rate;
 - Minimize the total cost charged to employers by ensuring the funding status is appropriate in relation to financial needs;
 - Ensure today's employers pay for the current and future cost of today's accidents.

7. The Workers Compensation Board will use the following guiding principles in determining the impact of the funding status on employer assessment revenue required on an annual basis:
 - Recognition of market-value investment returns;
 - Recognition of liabilities;
 - Funding status goal range of 100%-125%.

Investment Returns

8. The Workers Compensation Board will recognize market-value investment returns as per the most recent audited financial statements in determining the impact of the funding status on employer assessment revenue required on an annual basis.

Recognition of Liabilities

9. The funding status, for purposes of funding policy implementation, will be determined based on the funding status as per the most recent audited financial statements.

Consideration will be given to impacts on this funding status in light of any additional benefit liabilities that have been identified since release of the most recent audited financial statements and quantified by an actuary.

Funding Status Goal Range of 100% - 125%

10. The Workers Compensation Board will strive to maintain funding status in the range of 100% to 125%.
11. If the funding status of the Workers Compensation Board is in the range of 100% to 125%, annual employer assessment revenue requirements will not be adjusted for funding status.
12. If funding status of the Workers Compensation Board falls below 100% or increases above 125%, the Workers Compensation Board will adjust annual revenue requirements to return the Workers Compensation Board to the funding status goal range of 100% - 125%.

Funding Status Below 100%

13. If the funding status of the Workers Compensation Board falls below 100%, the Workers Compensation Board will adjust annual revenue requirements based on:
 - Additional revenue requirements to achieve a funding status of 105% amortized on a straight line basis over a period not to exceed 15 years;
 - Assessment rate adjustments associated with additional revenue requirements to achieve a funding status of 105%, in any one year, not to exceed \$.04 unless \$.04 will not meet additional revenue requirements based on a straight line amortization over 15 years.

Funding Status Between 125% and 140%

14. If the funding status of the Workers Compensation Board is between 125% and 140%, the Workers Compensation Board will adjust annual revenue requirements. This will be based on an assessment rate adjustment associated with the return of excess revenue amortized on a straight line basis over a period of 15 years.

Funding Status Above 140%

15. In the event the funding status of the Workers Compensation Board is above 140%, the Board may consider a surplus distribution back to eligible employers, in an amount as determined by the Board.

Employer Assessment Rates

16. This policy does not address how assessment rates are set or how experience rating is used to adjust the assessment rates of individual employers as outlined in Workers Compensation Board policy, POL-23, “Setting Assessment Rates”.

This policy provides direction for the generation and management of the revenue necessary for the Workers Compensation Board to fulfil benefit obligations to workers and to finance its activities and other obligations under the *Workers Compensation Act*.

Monitoring

17. The Workers Compensation Board will review this policy periodically, and no longer than every five years, to ensure the financial sustainability and stability of the workers compensation system.

HISTORY:

August 30, 2018 - Amended to report investments returns at market value, adjust the target ranges for the funded position and funding policy adjustments, increase the threshold for surplus distribution and include a monitoring statement.

March 28, 2017 - Amended to reflect the circumstances under which the Workers Compensation Board may consider a surplus redistribution.

August 20, 2012 - The policy was reviewed as a result of the 60 month policy review process. No substantive changes were made to the policy during this review.

Board of Directors Approval Date: August 2, 2007