

POLICY NUMBER: POL-136

**Chapter:
FINANCE AND ADMINISTRATION**

**Subject:
FUNDING POLICY**

**Effective Date:
August 6, 2007**

**Last Update:
March 28, 2017**

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.
Workers Compensation Board Policy, POL-122, Amortization of Investment Returns.

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 will smooth investment gains and losses as outlined in Workers Compensation Board policy, POL-122, "Amortization of Investment Returns," for the purpose of determining any impact on employer assessments. However, market fluctuations or investment returns outside the assumed long-term rate of return 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 funded 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 funding status on employer assessment revenue required on an annual basis:
 - Smoothed investment returns;
 - Recognition of liabilities;
 - Funding status goal range of 100% – 110%.

Smoothed Investment Returns

8. The Workers Compensation Board will amortize investment returns as outlined in Workers Compensation Board policy, POL-122, "Amortization of Investment Returns" 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% - 110%

10. The Workers Compensation Board will strive to maintain funding status in the range of 100% to 110%.
11. If the funding status of the Workers Compensation Board is in the range of 100% to 110%, 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 110%, the Workers Compensation Board will adjust annual revenue requirements to return the Workers Compensation Board to the funding status goal range of 100% - 110%.

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 cover the interest on any funding status balance below 100%;
 - Additional revenue requirements to achieve a funding status of 105% amortized over a period not to exceed 20 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 within 20 years.

Funding Status Above 110%

14. If the funding status of the Workers Compensation Board increases above 110%, the Workers Compensation Board will adjust annual revenue requirements based on:
 - Identifying excess revenue based on the balance which results in the Workers Compensation Board funding status of over 110%;
 - Assessment rate adjustments associated with return of the excess revenue over 20 years; and

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- Any surplus distributed, if applicable.
15. In the event the funding status of the Workers Compensation Board is above 130%, the board may consider a surplus distribution back to eligible employers, in an amount as determined by the Board

Employer Assessment Rates

16. The funding 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".

The funding 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*.

HISTORY:

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