

**POLICY NUMBER: POL-136**

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**Chapter:**  
**FINANCE AND ADMINISTRATION**

**Subject:**  
**FUNDING POLICY**

**Effective Date:**  
**August 6, 2007**

**Last Update:**  
**February 29, 2024**

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**PURPOSE STATEMENT:**

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

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**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

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**DEFINITION:**

In this policy:

“Total Liabilities” for the purpose of this policy, liabilities are measured as described in Section 9 of this policy.

“Fully funded” for the purpose of this policy, means the total assets of the Workers Compensation are equal to or greater than the total liabilities of the WCB.

“Funding status” means the total assets of the WCB expressed as a percentage of total liabilities of the WCB. The calculation of the funding status will be detailed in the Capital Management note in WCB’s annual audited financial statements.

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**POLICY:**

1. The WCB 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 WCB 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 WCB 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 WCB.

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 WCB policy, POL-36, "Investment of Board Funds," and a reasonable return on investment assumption will be incorporated into actuarial benefit liability assumptions.

The WCB 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 WCB.

4. Events, including a change in actuarial assumptions or legislative changes, are outside normal day-to-day impacts on the liabilities of the WCB. Such events, however, may happen once every few years and therefore have an impact on the funding status of the WCB.
5. In recognition of potential impacts on the liabilities of the WCB, the WCB 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 WCB 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 as defined below.
  - Funding status goal range of 100%-125%.

### **Investment Returns**

8. The WCB 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 liabilities recognized for the purposes of this policy will require liabilities for benefits to injured workers be calculated by an external actuary using a discount rate that is determined with reference to the long-term return on investments and consideration of other relevant factors ("Funding Actuarial Valuation"). This would be the same methodology and assumptions as used in the rate settling process. The calculated liabilities in accordance with this policy may not agree with the liabilities recognized on the annual financial statement prepared in accordance with International Financial Reporting Standards "(IFRS)". The Capital Management note in the annual financial statements will provide a reconciliation of the fund balance as per the annual financial statements and the fund balance calculated as per this policy and disclose the funding percentage as calculated in accordance with this policy.

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 WCB will strive to maintain funding status in the range of 100% to 125%.
11. If the funding status of the WCB 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 WCB falls below 100% or increases above 125%, the WCB will adjust annual revenue requirements to return the WCB to the funding status goal range of 100% - 125%.

**Funding Status Below 100%**

13. If the funding status of the WCB falls below 100%, the WCB 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 WCB is between 125% and 140%, the WCB 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 WCB is above 140%, the Board may consider a surplus distribution back to eligible employers, in an amount as determined by the

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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 WCB policy, POL-23, “Setting Assessment Rates”.

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

**Monitoring**

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

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**HISTORY:**

February 29, 2024 – Non-substantive changes to reflect International Financial Reporting Standards (IFRS) recognition of liabilities.

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