
**A comment of the future funding strategy and policy
of the Workplace Safety & Insurance Board**

**An opportunity to fulfill a 35 year old promise to
Ontario's employers**

Presented:
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A. Preamble

1. This paper is being presented by members of the **WSIB Chair's Advisory Committee** to assist in the discussion scheduled for March 19, 2018 to address the future funding of the Ontario workplace safety and insurance system ["WSI"].
2. We are at a crossroads. A positive one for a change.
3. The recent financial history of the WSIB represents a remarkable turnaround story. From the 2009 Auditor General Report which cast serious doubt on the future sustainability of the WSI, Ontario's employers, the Board and the government worked with dispatch pulling towards a collaborative effort to eliminate the unfunded liability ["UFL"].
4. We have seen outstanding management on the part of the Board. We have seen sound legislative leadership on the part of the government. And, very significantly, we have seen the sustained effort over a period spanning four (4) decades of Ontario's employers contributing between 30% – 50% of their premiums towards the UFL.
5. Recent reporting shows that this time, this effort has been successful. The UFL, at this moment, is at or nearing zero. The question of the day is one fully two generations of Ontarians have never heard – *what's next? What will the funding plans look like with no UFL?*
6. This paper is presented to assist in that discussion.
7. First though, it is important to recognize that this did not just happen. This was caused. Chair Steve Mahoney, Chair Elizabeth Witmer, President David Marshall and President Tom Teahen are the principals behind this landmark achievement. Our strongest thanks for your breakthrough leadership and stewardship. While today's workers and employers benefit from this triumph, it is future generations who are the true beneficiaries.
8. A new chapter is about to be written. We want to help.

B. A simple focus – equity for the future

1. This paper will advance three prongs of a single theme. Employer equity.
2. First, we will examine the promise held out to Ontario’s employers and presented time and time again over the past 35 years. It has been well received. It has been understood. It has prompted sustained employer engagement. And, it is simple. Once 100% funding is attained, the UFL component of the premium will be dropped.
3. Second, we will explain why a funding target of 100% is not only the appropriate level of funding, but anything more or anything less will violate the principle of inter-generational equity, a longstanding WSIB sanctioned principle.
4. Finally, we will present preliminary thoughts on the best funding concepts going forward to ensure the objectives of full funding and rate stability are managed through an inter-generational equity focus.

C. A truncated history of the UFL

1. The first mention by the (then) Workers’ Compensation Board [“WCB”] of the UFL was in the **WCB 1983 Annual Report**. The UFL was then \$2.7 B (\$5.85 B in 2017 \$), and the funding ratio had dipped to 49%.
2. The first response of the WCB administration was to demand a 27% increase of the Average Premium Rate [“APR”] in a single year, with more to come, with some rate groups experiencing premium increases of up to 35%.
3. This sparked a brush-fire of employer discontent.
4. Many of the employer associations currently sitting as members of the CAG joined forces and provoked a high level dialogue within the WCB and government.
5. Overall, the resulting dialogue was productive.
6. The Board adopted the 30 year funding plan, requiring several years of more modest employer premium hikes. They were still hefty - 15% per year for three years (85,86,87) followed by 10% per year for another three years (88,89,90).
7. The plan called for the elimination of the UFL by the now infamous date of 2014.
8. This plan represented the commencement of a new partnership between the Board and Ontario’s employers.
9. From 1984 to 1989, the Board focused on improving return to work efforts and enhancing client service delivery. By the end



of 1989 the UFL was \$8.5 B, with the funding ratio receding to 38.7%.

10. In the 1989 WCB Annual Report, the Board was optimistic that if “*the 1989 accident performance is maintained over the long term, it could result in elimination of the unfunded liability seven years earlier – by the year 2007*” (at p. 18). Accident performance actually declined in the long term. Of course, the Board missed the 2014 target let alone the new 2007 target.
11. By 1990, the UFL was up to \$9.1 B (\$15.3 B in 2017 \$).
12. Throughout 1990 to 1995, the Board underwent several reorganizations in efforts to improve service delivery and reduce time on claim. By 1995, the UFL was \$10.9 B (\$16.2 in 2017 \$).
13. By the year 2000 the UFL was \$5.7 billion (\$7.87 in 2017 \$), with the Board remarking “. . . *the service delivery strategy initiative integrated a “new business model” into the organization . . . “the work we are doing is paying off”* [WSIB 2000 Annual Report, p. 15].
14. In a May 28, 2004 **Third Party Audit of the Workplace Safety & Insurance Board** on behalf of the Minister of Labour, it was noted that “*addressing the UFL is fundamental to achieving financial stability of the WSIB*”.
15. The **2005 Annual Report of the Office of the Auditor General** of Ontario (at p. 362) noted that “*the insurance fund . . . (is) substantially less than what is needed . . .*” The WSIB itself recognized that in 2005 the Board’s “*most daunting challenge is economic . . . we have a significant unfunded liability*” [WSIB 2005 Annual Report, p. 5], but the Board remained committed to the elimination of the unfunded liability by 2014.
16. By 2006 the UFL was slightly less than \$6 B and the Board declared that this “*result indicates we are starting to turn the financial corner*” [2006 WSIB Annual Report]. By 2007, the UFL was up to \$8.1 B and the WSIB announced another reorganization [2007 Annual Report, p. 32].
17. The “game changer” was the **Ontario Auditor General November 2009 Report** which announced “*there is a risk that the WSIB may not be able to meet its obligations.*” At that moment everything changed.
18. A new WSIB President, David Marshall, was appointed. A **Funding Review** chaired by Harry Arthurs investigated and reported. **Ontario Regulation 141/12** required that the Board attain funding levels of 60 % by December 31, 2017; 80 % by December 31, 2022; and, 100 % by December 31, 2027.
19. Ontario’s employers became engaged in a manner as never before.
20. Heavy rate hikes were accepted. From 2010 to 2017, when funding levels improved well ahead of schedule, there was no demand for slowing down the success curve through lower premiums.



D. How is the WSIB doing?

1. After many years of a sustained focus, higher premium rates, higher overall employer premiums, lower injury rates, and lower time on claim, and after decade upon decade of failed efforts, success seems to be at hand.
2. In the **WSIB 2016 Economic Statement**, the Board reports the UFL will be retired well ahead of schedule.

Impact on the Ontario Economy

The WSIB's projections for the future continue to look bright. We believe we will eliminate the UFL by 2021 even as we implement legislated benefit increases (e.g., presumptive PTSD legislation, indexation of partial benefits), invest in our systems to improve service and lower premium rates.

3. In the **2016 WSIB Annual Report**, Chair Witmer advises that on a sustainability basis the UFL sits at \$4.0 B at the end of 2016.

Most notably, after reaching an unsustainable high of \$14.2 billion in 2011, our Unfunded Liability (UFL) ended 2016 at \$4.0 billion on a sufficiency basis - and continues to fall at a pace well ahead of the legislated timetable for its elimination. This is being achieved at the same time as significant new investments are being made to strengthen programs of care for

4. By the time the **2017 Third Quarter Report to Stakeholders** was released, the improvement in the UFL is shown to be even more impressive.

5. On a sufficiency basis, the UFL as at September 30, 2017 was a remarkable \$1.8 B, a tremendous achievement.

| | Sep. 30 2017 | Dec. 31 2016 |
|---|-----------------|-----------------|
| Unfunded liability ^{3,4} | (1,284) | (3,925) |
| Unfunded liability - Sufficiency Ratio basis ⁴ | (1,777) | (4,004) |
| Sufficiency Ratio ⁵ | 94.5% | 87.4% |

6. By the time of the March CAG meeting, the WSIB may well be at or very close to full funding. *So, what's next?*



E. The promise to Ontario’s employers. It’s time to deliver.

1. From 1984 onwards, Ontario employers contributed a premium surcharge to retire the UFL.
2. Sizeable investments to this end have been made. As it turned out, 25 years of that surcharge ended up being a wasted expenditure.
3. Since 2010, with the original promise always in mind, today’s generation of Ontario’s employers, along with the Board, stepped up to the plate and hit a home run. It is time to round the bases and fulfill the promise.
4. The **WCB 1987 Annual Report** articulates the promise (at p. 11):

“. . . the average assessment rate should plateau within the next two to three years and remain relatively constant thereafter, *until the unfunded liability surcharge is removed in 2014 – at which time the average assessment rate is expected to fall sharply*”.

5. This promise is repeated in the February, 1992 Board document “**WCB Funding Strategy**”, at page 7:

Once each rate group’s actual assessment rate reached its full funding (target) level, future rates would depend on the rate group’s collective accident cost experience. According to the 1984 plan, the unfunded liability would continue to rise at a gradually decreasing rate until just before the turn of the century. Thereafter, it would decline steeply until its elimination in 2014 when the unfunded liability surcharge of approximately 50 cents could be removed.

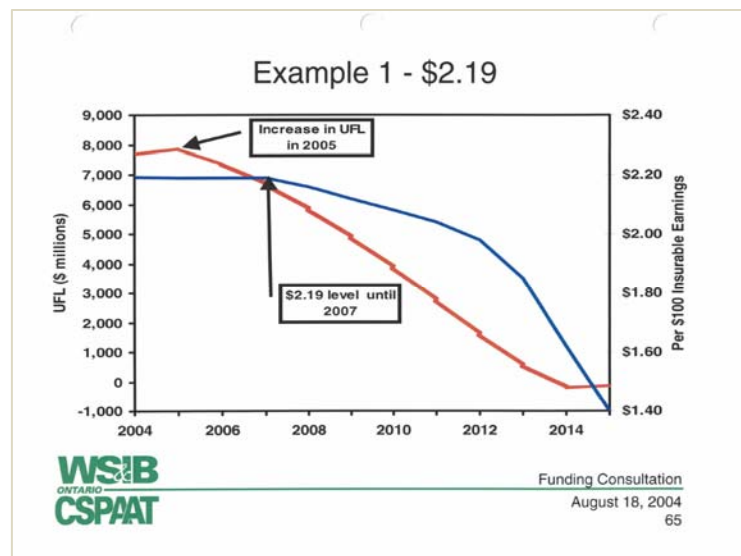
6. That 100% funding was the target is affirmed in the **WSIB 1998 Annual Report** (at p. 17):

“Our goal is to have the lowest premium rate possible, while protecting the financial future of the system through 100% per cent funding of all liabilities”.

7. A series of funding scenarios presented at the **WSIB August 18, 2004 “Funding Strategy Consultation”** at the Radisson Plaza Hotel confirmed the promise.

8. Every one of the scenarios (one is reproduced at the right), shows plummeting premium rates as the UFL approaches zero.

9. These charts presented 14 years ago, remind of the longstanding promise – at 100% funding the unfunded liability surcharge will be removed.



WSIB Funding Strategy

An opportunity to fulfill a 35 year old promise

10. In the **WSIB July 20, 2005 “Funding Framework”** the sought after performance at 2014 when full funding is reached is 100% funding (see excerpt below from page 19):

Performance Measures

The following measure is suggested to help monitor and analyse progress under funding strategy.

| Measure | Description | Performance |
|---------------|---|-------------------------------|
| Funding ratio | The ratio of total assets, excluding the Accumulated Other Comprehensive Income, to total liabilities | 62.9% by 2006 100% by 2014 |

11. In the **WSIB May 2008 “Funding Framework”**, one of the core funding principles is set out as the “retirement of unfunded liability” (at p. 4). The “full-funding target” is explained as “the reported unfunded liability based on a 100 per cent funding ratio” (at p. 6).
12. In the WSIB June 2011 paper, “**Perspectives on the WSIB’s UFL**”, presented to the Harry Arthurs Funding Review through a June 6, 2011 memorandum from WSIB President David Marshall, it remains clear that the funding target being sought is 100%. The paper advises (at p. 14):

“It is our considered view that the WSIB Insurance Fund must be fully funded, that is, 100 per cent funded and that goal be specified in legislation.”

13. This point is made clearer in an accompanying Eckler study submitted by the WSIB, “**Concept Design Paper for Funding of the WSIB**”, June 6, 2011. A chart from p. 13, reproduced below, shows that once 100% funding is reached, the only premium rate components are the new claim cost and administration. There is no UFL or any other funding element.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Average Rate | 2.35 | 2.40 | 2.46 | 2.52 | 2.57 | 2.63 | 2.69 | 2.69 | 2.70 | 2.71 | 2.71 | 2.72 | 2.72 | 2.69 | 2.60 | 2.23 | 1.97 | 1.91 | 1.89 | 1.89 | 1.90 |
| Current Rate | 1.51 | 1.75 | 1.76 | 1.77 | 1.77 | 1.78 | 1.79 | 1.79 | 1.80 | 1.81 | 1.81 | 1.82 | 1.83 | 1.84 | 1.85 | 1.85 | 1.85 | 1.86 | 1.87 | 1.88 | 1.90 |
| New Claim Cost | 1.01 | 1.23 | 1.23 | 1.24 | 1.25 | 1.26 | 1.27 | 1.28 | 1.29 | 1.30 | 1.31 | 1.32 | 1.33 | 1.35 | 1.36 | 1.37 | 1.38 | 1.40 | 1.41 | 1.42 | 1.44 |
| Administration | 0.50 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 | 0.53 | 0.52 | 0.51 | 0.51 | 0.51 | 0.51 | 0.51 |
| UFL Rate | 0.85 | 0.65 | 0.70 | 0.75 | 0.80 | 0.85 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.90 | 0.35 | 0.06 | 0.00 | 0.00 | 0.00 | 0.00 |

14. This brief narrative simply shows that from the outset, “full funding” has meant 100% funding. Once 100% is met, the UFL component is removed, and the only remaining premium rate components are new claim costs and administration.
15. Ontario’s employers expect delivery of this understanding.

F. Intergenerational equity – the essential bridge towards fairness

1. As set out in the **WSIB 2005 Annual Report** (at p. 17), the key funding principle is the retirement of the UFL. We are almost there. The next fundamental principle is “*equity among generations of employers.*” This principle is repeated in the **WSIB 2005 “Funding Framework”** (at p. 6).

**Inter-generational equity and fairness among
employers, workers and the system**

While recognizing that there is a considerable amount of unfunded liability to be paid for from future premiums, the WSIB will minimize any undue or unfair shift of the financial burden in respect of injuries from previous years to future generations, and among employers, workers and the system as a whole.

2. This is a dynamic principle.
3. During a period burdened by an unfunded liability, this equity principal ensures that today’s employers must contribute sufficient premiums to fund the current and projected future cost of new injuries, as well as contributing a sizeable portion to the UFL (resulting from a period predating adherence to this principle).
4. However, it also means that today’s employers should not fund tomorrow’s costs. For the sake of equity, those costs must be borne by that generation of employers.
5. Understandably, as the primary funding focus of the Board over the past 35 years has been the UFL, this principle has been applied in a manner to restrain the impact of past years’ injuries to current and future generations.
6. However, this principle also speaks to the concept of funding today for tomorrow’s injuries. Such a practice is not equitable, for the same reasons. This principle is discussed at length in the earlier introduced WSIB June 2011 paper, “**Perspectives on the WSIB’s UFL,**” at page 9:
- “. . . the laxness that enters the administration of the Insurance Scheme are a direct result of the absence of the check-and-balances provided by charging current employers the true cost of benefits. Cumulatively, these factors, if unchecked over time, inevitably deliver a poorly run Insurance Scheme”
7. Just as the paper advances the thesis that “*it is poor public policy to provide a subsidy to current employers at the expense of future employers*” (at p. 12), the inverse is also true, “*it is poor public policy to provide a subsidy to future employers at the expense of current employers.*”
8. Such subsidies undermine the accountability levers both within the Board and the employer community. Lax administration will result if administrative actions are immunized from the funding implications of current decisions. Similarly, future employers will lose accountability over their current costs if a sizeable portion of those costs have been pre-funded by yesterday’s employers.

9. Therefore, any desire to establish a target level in excess of 100% offends the carefully designed equilibrium built into the WSI system. Once the UFL has been reduced to zero, the only reasonable funding mechanism is that which has been sought and promised since 1984 – a funding goal of 100%, nothing more, nothing less, and premium rates that reflect the funding realities of the day.

G. An adjunct to the funding policy – rate stabilization versus intergenerational equity

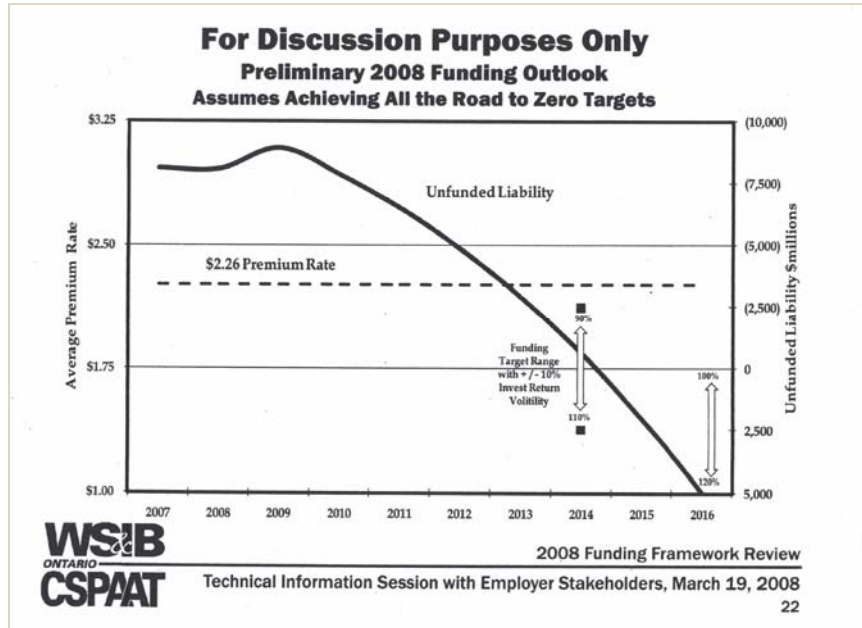
1. While the only reasonable funding target consistent with the underpinning motivational and accountability elements of the WSI funding scheme and consistent with the principle of inter-generational equity is a 100% target, rate stabilization is a secondary but important consideration.
2. However, rate stabilization does not supplant equity.
3. The current generation of employers must adequately fund the current generation of insurance costs. More simply, the new claim cost component must reflect the actual cost regardless of the impact to absorb those costs.
4. In the past, the lack of will or perceived inability to adequately fund current claim costs resulted in the creation of the UFL – a dragging weight on the system for 40 years. Of course, a cornerstone of the current funding mindset ensures that contemporary costs are borne by the contemporary generation of Ontario’s employers.
5. Rate stability is not a relevant consideration in the context of performance based variations (beyond defining the length of the historic window through which to average past costs).
6. However, the fluctuation of the capitalized value of the Board’s investment fund along with periodic declines in investment returns is a powerful variable that directly impacts the UFL.
7. While 100% must be set as the funding target, a funding ratio slightly higher or lower resulting from market conditions should not drive premium rate adjustments.
8. This issue was canvassed in the **WSIB May 2008 “Funding Framework”** (at p. 6):

Funding target

The full-funding target is the reported unfunded liability based on a 100 per cent funding ratio (the ratio of total assets to total liabilities). This is based on consideration of the impact of investment return variability on the funded position of +/- 10 per cent (i.e. 90 per cent to 110 per cent funding ratio). This is to provide premium rate and benefit stability in the light of potential investment return variability.

9. The 90% - 110% funding range idea (while premature and optimistic at the time) was an element of the **2008 Funding Framework Review Technical Information Session with Employer Stakeholders, March 19, 2008**, when a +/- 10% Funding Target Range concept was first introduced.
10. The chart on the next page reflects the Board’s thinking at that time.

11. Since the system had “bigger fish to fry” at that time, and as the UFL itself was the primary funding focus, the idea did not garner serious debate in that 10 year ago meeting.
12. It is now a concept that warrants attention.



13. In the 2011 Eckler paper presented to the Funding Review by WSIB President Marshall, this concept is addressed and described as a “yellow or No Action Zone around the target funding level, within which no corrective action is taken, in order to avoid over-reacting to temporary fluctuations in the funding position” (**Eckler Paper, Section 8: Other Elements, at p. 26**).
14. Be it described as a “Funding Target Range” or a “No Action Zone” the concept is a vibrant one and should be an integral element to the WSIB post-UFL funding strategy.

H. A road-map for the future

1. The WSIB must affirm that a funding ratio of 100% is the only target being sought.
2. Once 100% funding is reached, the 35 year old promise to remove the UFL surcharge must be fulfilled.
3. Once that promise is fulfilled, a post-UFL funding strategy is to be developed, adopting a “no action zone” concept, be it 90-110% or 95-105%, or another range. While funding is within the “no action zone”, the average premium will neither increase or decrease.

ALL OF WHICH IS RESPECTFULLY SUBMITTED
March, 2018