The Liversidge *e*-Letter

An *Executive Briefing* on Emerging Workplace Safety and Insurance Issues

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The Case for a Large Scale Review of the Ontario WSIB (Part I of III)

Mahoney Report must get ball rolling for the next generation of reform

It is time to find the real solutions to the real problems – An independent review is an essential first step

As readers of **The Liversidge *e*-Letter** are aware, I have been recommending a large scale *independent third party* review of the Ontario workplace safety and insurance ["WSI"] system for over a year now. Well before the world-wide financial melt-down, I suggested that the WSIB's long-term funding plan to reach full funding by 2014 was toast. More than two years ago, after the Board suggested it had "*turned the financial corner*" I said the Board's funding plans were impossible unless WSIB Chair Mahoney "*pulled a rabbit out of his hat*". Well, there's no magician's hat let alone a rabbit.

Since, the world-wide financial crisis has been "Story 1", and the Board has not been at all shy in calling attention to the impact of the "global financial crisis" on the Board's finances. In the most recent **WSIB Quarterly Financial Statement** for the period ending June 30, 2009, the Board noted the ". . . *WSIB's financial results continue to be impacted by recent increases to benefits and the current global financial crisis impacting both investment returns and premium revenues. The financial crisis is unprecedented in its magnitude and complexity resulting in a significant degree of uncertainly and rapidly changing conditions*".

The market melt-down masks deep seated systemic problems

I suggested a year ago in the October 8, 2008 issue of **The Liversidge *e*-Letter** ("***It's Official: WSIB unfunded liability jumps over $2 billion in one year!***"), that "*the market melt down will be targeted as the culprit – but the warning signs were present long before*".

But, since 2007 I have suggested the Board was "*playing a long shot*" and for more than a year now as but one proposition, I have argued for a broad scope "*external review of the WSIB*". The ***Mahoney Report*** presents the opportunity to get the reform ball rolling.

The *Mahoney Report* is the key

In the October 16, 2009 issue of **The Liversidge *e*-Letter**, "**Why the *Mahoney Report* must focus primarily on WSIB fiscal health**", I argued then that "*much of the future of the Ontario WSI scheme depends on the vibrancy of the Mahoney Report*". But, while stakeholders have a right to expect a dynamic assessment of the current state of the Ontario WSIB, as I have said before, do not expect a cry of "***Eureka!***". At best, one can reasonably expect that the *Mahoney Report* will lay out the processes and protocols to kick-off the next stage of reforms of the Ontario WSIB.

The system needs real reform

Make no mistake about it – the system needs real, deep-reaching reform. It is a flight of fancy to attribute most of today's ills to the world-wide economic events flowing from last Fall's melt-down. Yet, the world-wide financial crisis seems to be getting the lion's share of the blame. I suggest that even if (when) the equity markets return to pre-melt down levels, whenever that may be, the Ontario WSIB will still be in trouble. It was in trouble before. A good place to start is to set aside some of the prevailing myths. The first is that the **Number 1 Culprit** is the number of lost-time injuries ["LTIs"]. As **Figure 1** shows, the LTI rate 20 years ago was **more than *5 times* today's rate**. Quite remarkable.

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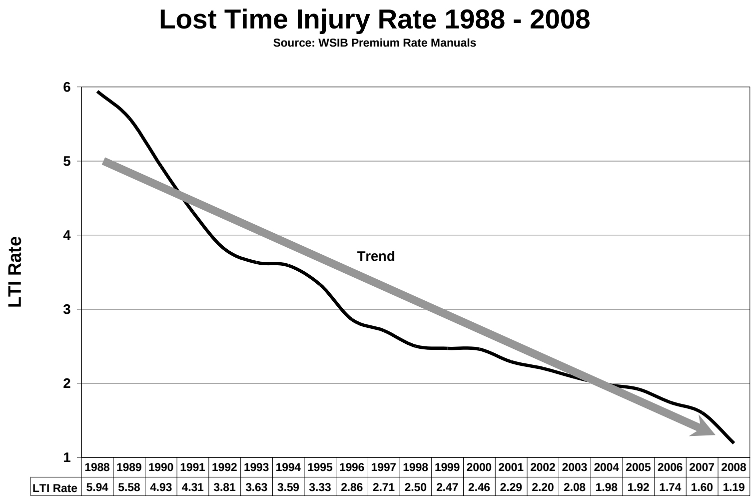


Figure 1

The "*Road to Zero*" is sound public policy

Let's accept that the "*Road to Zero*" is sound public policy. One LTI is one too many. It makes perfect sense to accept, as a prevailing rule, that maximum effort should be focused on reducing LTIs to zero. But, let's not lose a rational perspective.

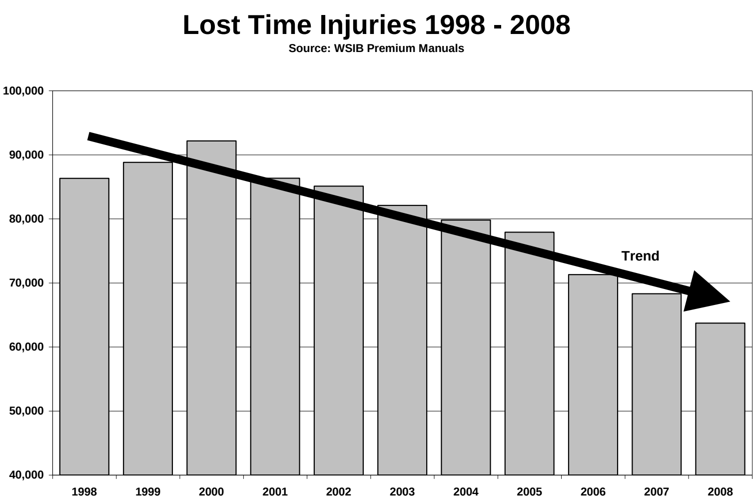


Figure 2

The LTI rate and the number of actual LTIs are down considerably (**Figures 1 & 2**). Yet, during this summer's "***2010 Premium Rate Consultation***" the Board issued a "*fair warning*" to Ontario's employers that premiums may have to increase if the Board's finances do not improve. **The Board's Number 1 Solution? *Reduce injuries*.**

But, will a reduction in juries really have any significant impact? Are the number of injuries the primary driver behind the current state of the Ontario WSIB? Well, actually, no.

Figure 3

While injuries are on the decline, the unfunded liability ["UFL"] is on the upswing (**Figure 3**). Now, the state of the Board's investments from the "melt-down", which has been held out of late as one of the "prime suspects" is certainly part of the problem. But, just a part. The UFL bumped up considerably 2006 -2007, well before the "melt-down".

Accidents are down – Benefits are up

The real story is actually rather simple – accidents are down and benefits are up. From 1998 to 2008 the number of LTIs dropped a remarkable 26% (from 86,310 to 63,704) while benefits, in constant dollars, increased a whopping 28% (from \$2.8696 billion in 1998 to \$3.6780 billion in 2008). See **Figure 4**.

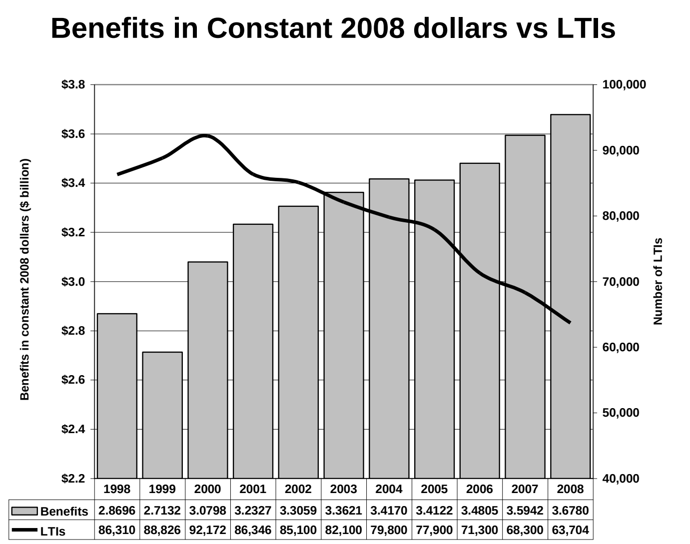
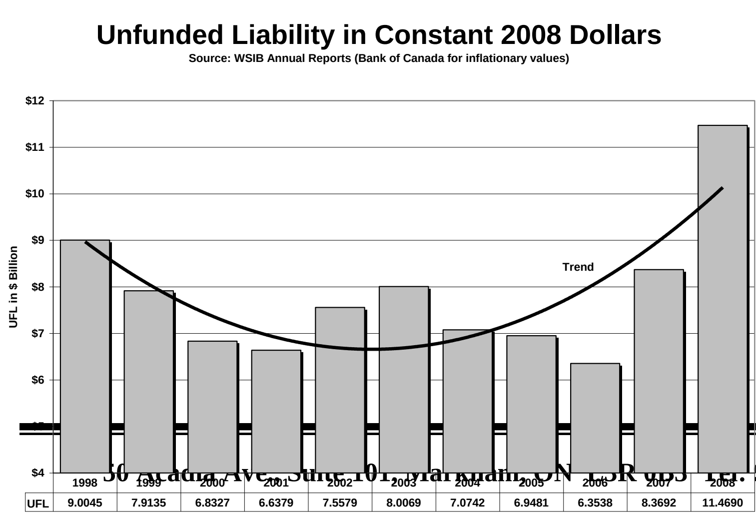


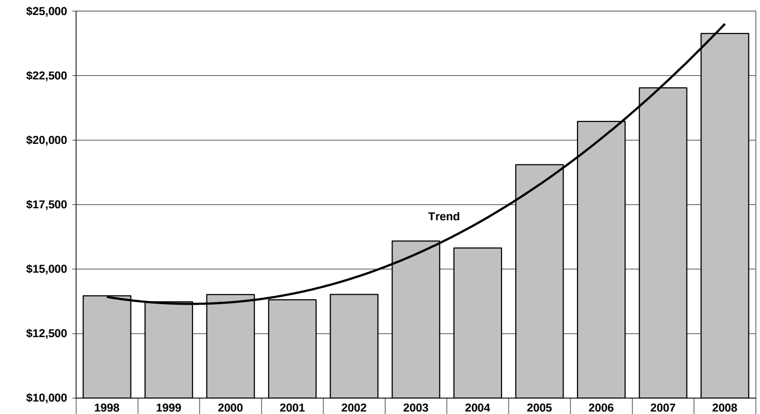
Figure 4

2003 sees the start of a new upward trend

The bottom line is this – beginning in about 2003 a new trend was triggered. Commencing in 2003, the average cost per LTI started a dramatic upswing. See **Figure 5**.



Avg Cost per LTI in Constant 2008 Dollars



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cost per LTI	13,962	13,729	14,012	13,812	14,016	16,084	15,819	19,047	20,724	22,024	24,133

Figure 5

From 1998 to 2002 average cost per LTI about the same
From 2002 to 2008 average cost per LTI up 72%

From 1998 to 2002, in constant dollars (2008 $), the average cost per LTI remained about the same, bouncing around $14,000. But, starting in 2003, a powerful new trend emerged. From 2002 to 2008 the average cost per LTI jumped an astounding 72%, from $14,016 in 2002 to $24,133 in 2008. ***That, I suggest, is the real story***. Even though accident rates are at historic lows, benefit costs are at historic highs. **Next Issue:** *How does Ontario compare?*

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