

WSIB Funding Review – Technical Note

A Funding Policy for the WSIB of Ontario

A proposed funding policy for the Ontario system is set out in this appendix together with some illustrations of the impact on premium rates. The illustrations represent best estimates using known data and results published by the WSIB. The purpose is to give some substance to the funding principles being presented. Of course the precise calculations need to be performed by the WSIB itself.

No funding policy will work in the absence of good governance. Accordingly the achievement of full funding in the system with support of the employers who pay the cost would be contingent on improved governance and management.

Funding Policy –

Fundamentals of the policy include:

- (i) determination of the unfunded liability on a going concern basis, with adequate recognition of adverse contingencies such that future losses are not expected on existing claims, with an acceptable amortization period and annual payment level to achieve 100% liquidation, plus;
- (ii) realistically determined cost of new injuries, such that no gains or losses are expected, to be 100% funded in the year of accident, plus
- (iii) no provision for legislated benefit increases to existing claims, plus;
- (iv) provision for amortization of experience gains and losses.

Final agreement on terms would be settled following calculations on scenarios by the WSIB.

Scenarios Considered –

Determine the unfunded liability at December 31, 2010; set rate components for 2012; amortize the UFL over 15 years as a level percentage of increasing payroll starting January 1, 2011; segregate losses on claims from the most recent 6 years and amortize them over 6 years, as is being done currently by the WSIB since 2004; establish the cost of new injuries on a sound basis such that losses are not to be expected.

Assumptions –

| | |
|---|-------------------|
| WSIB budget for UFL @ 31/12/2010 is | \$12.2 billion |
| Add: cost to change from 7% to 6% interest rate | 1.6 billion |
| Add: liability for occ. disease claims per CIA standard | .4 billion |
| Less: 2010 investment gain of 220bps | .3 billion |
| Add: net of other experience gains and losses | <u>.1 billion</u> |
| Estimated UFL at 31/12/2010 | \$14.0 billion |

Estimate losses at 31/12/2010 on 2005 to 2010 claims to be \$1 billion. If these are to be amortized separately then the UFL to amortize over the long term becomes \$13 billion.

Amortize the UFL over 15 years at a 6% interest rate as a level percentage of increasing payroll. Assume 2012 payroll of \$155 billion and a 3% annual growth in covered payroll.

Make adjustments to the 2011 rate components as required. Assume the cost of new injuries will increase for the change in interest rate, a small increment for occ. disease claims and a small increase to strengthen duration assumptions. The mix of industries and other assumptions are assumed to be the same as for the 2011 cost of new injuries. The Overhead and Bad Debt components are maintained unchanged.

Illustrations of Schedule 1 premium rates –

| | <u>2011 Rate</u> | <u>2012 Scenario A</u> | <u>2012 Scenario B</u> |
|------------------------|------------------|------------------------|------------------------|
| Cost of New Injuries | \$1.010 | \$1.070 | \$1.120 |
| Overhead | .400 | .400 | .400 |
| UFL – pre 2005 claims | .741 | .690 | .690 |
| UFL – 2005-2010 claims | .168 | .168 | .168 |
| Bad Debts | .033 | .033 | .033 |
| Total | \$2.352 | \$2.351 | \$2.411 |

Observations -

In scenario A and B the UFL of \$13 billion is amortized over the 15 year period. The short term loss component of \$.168 was simply maintained for 2012 in each scenario to cover the other billion of losses. This item should have reached a mature level since 2010 was the first year in which 6 full years of losses for years after from 2004 onward were being captured and amortized. In fact there is a good chance this item should begin to decrease in future since new claims will henceforth be priced on a slightly more conservative basis up front in the premium rates.

The cost of new injuries was increased in Scenario A for the change in valuation interest rate and a small addition for the new occupational disease costs. In Scenario B a margin of conservatism was added to the cost of new claims. This will lead to a reduction in the short term loss component (\$.168) in future years.

The conclusion is that, with sound management, it should be possible to amortize the unfunded liability over 15 years and fully fund the cost of new injuries for a premium rate in the \$2.35 to \$2.40 range. It does not appear that a rate approaching \$3.00 is necessary. Of course, if the mix of industries and new claim risk changes in future, then the cost of new injuries will also change as will the total premium rate. The focus needs to be on the principles of the funding policy and not on the absolute total rate, for the purpose of this illustration.

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