

WCB-Alberta funding policy (Policy: 01-01 Part I)

The *Alberta Workers' Compensation Act* requires that sufficient funds be available in WCB-Alberta's Accident Fund for the payment of present and future compensation to injured workers. The Accident Fund is considered fully funded when the total of all assets equals or exceeds 100 per cent of the total liabilities. The Funded Position of the Accident Fund represents the current funding status of the fund.

WCB-Alberta funding policy is based on the guiding principle of ensuring sustained fair compensation for injured workers at a fair price to employers. This means guaranteeing the appropriate level of benefits to injured workers in the long-term and providing cost-effective risk financing for employers.

Goals of the Funding Policy

- Minimize the risk of being unfunded so that worker benefits are secure.
- Minimize cost volatility so that employer premium rates are stable.
- Minimize the total cost charged to employers by ensuring the Funded Position is appropriate in relation to financial needs.
- Ensure today's employers pay for the current and future cost of today's injuries so that responsibilities are retained by today's employers for today's injuries.

Funding Range

The Funding Policy is a key financial management tool for WCB-Alberta. This policy impacts rate setting and guides decision making on surplus distribution, timing and size. The Funding Policy aims to strike a balance between minimizing the risk of becoming unfunded - which would place worker benefits at unacceptable risk and violate the *Alberta Workers' Compensation Act*; minimizing cost volatility - which would place an undue burden on Alberta employers; and retaining a level of assets over liabilities that is reasonable for all stakeholders. To this end, WCB-Alberta's funding policy establishes a funding range between 114 per cent and 128 per cent. If WCB-Alberta surpasses the required funding level, dividends are paid to employers. If there is a shortfall, it must be replenished in the form of a levy to employers.

This funding range is effective July 1, 2008.

You can find the *Alberta Workers' Compensation Act* at:

<http://www.wcb.ab.ca/public/policy/legislation.asp>

FAQ about Policy:01-01 Part 1

1. Why did the funding policy change?

In 2007, an independent external actuary conducted a comprehensive review of WCB-Alberta's existing funding range requirements (116 per cent - 122 per cent). The actuary found various shortcomings with the range which wasn't broad enough to adequately absorb possible investment volatility which impacts overall funding. It found year-over-year funding fluctuations could easily move WCB-Alberta in and out of acceptable funding levels causing rate volatility for employers. In order to provide long-term rate stability, the actuary recommended the targeted range be expanded. Based on this expert advice, the Board of Directors approved this amendment to take effect July 1, 2008.

2. What impact will the new policy have on employers?

Employers will receive more protection from the up and down cycle of investments. It will provide employers with more rate stability, and premiums will continue to be reflective of claim costs. The broader range reduces the risk of fluctuation between underfunded and overfunded status in one year to less than 10 per cent.

3. What impact will the new policy have on workers?

Worker benefits are protected by the funding policy in the long-term. Worker benefits are set through benefit policies and do not increase or decrease to reflect WCB-Alberta's funding status.

4. Will employers still receive special dividends?

Yes. Employers will still receive dividends if WCB-Alberta surpasses its required funding level as might happen in some cases of better-than-expected investment returns and strong corporate performance. Payment of a special dividend is subject to a minimum threshold of 1 per cent of the claim benefit liabilities.

5. What consulting took place with stakeholders?

The process to amend the funding policy was extensive. It involved online consultation in addition to in-person meetings. Stakeholders were provided time to respond, encouraged to ask questions, seek answers and provide feedback. After careful consideration and extensive discussion, the Board of Directors approved the revised policy based on solid evidence of negative financial risk should amendments not be made to the policy.