Funding policy

We review our funding policy every three years (last reviewed and amended in 2023). As part of our policy project plan and our 2026 strategy map and objectives, we are seeking public input on our funding policy to ensure an appropriate balance of the needs of Albertans with system sustainability.

Current policy

Under the current policy:

- The funded ratio is calculated using the value of all assets based on fair value measurements (reflecting current market values).
- The target funding range is between 114% and 128%.
- If WCB-Alberta surpasses the required funding level, a surplus distribution may be paid to employers.
- If there is a shortfall below 114% (but higher than 100%), there may be phased premium levies to employers to replenish the Fund.
- If there is a shortfall below 100%, there may be an immediate levy to replenish the Fund.

Funding principles are designed to strike a balance:

Minimize the risk of being unfunded

Employers

1. Ensuring **fair compensation** for injured workers **at a fair price** for employers.
2. Ensure a **link** exists between the **current and future cost of today's accidents** and the **premium rates paid by today's employers.**

Injured workers

Rate stability for employers ⟷ *Long term benefit security for workers*

What we propose

Based on external expert consultation, we propose the following two changes to our funding policy:

Use an asset smoothing approach of 5 years to measure investment asset values to calculate the funded ratio	Change the Funding Policy target range from 114-128% to 114-126%
• Reduces volatility of the funded ratio • Reduces probability of the funded ratio decreasing below 100% • Reduces probability of surplus distributions	• Increases probability of surplus distribution • Does not have a discernible impact on the probability of the funded ratio falling below 100%

We want to hear from you

Please see the following draft policies attached at the end of this document for additional details.

- Draft Policy 01-01, Part I, Funding Policy
- Draft Policy 01-01, Part II, Application 1, Funding Level

A summary of the conclusions reached by Eckler and TELUS Health (external actuaries) is included for additional context.

We welcome your feedback, ideas, and suggestions

This posting will be open for consultation until June 1, 2026.

Alberta WCB Policies & Information

Chapter:
GENERAL POLICIES

Subject:
FUNDING POLICY

Authorization: **BoD Resolution** ~~2022/06/19~~

Date: ~~November 29, 2022~~

REFERENCE:

Workers' Compensation Act, RSA 2000, Sections 90, 91, 92, 93(6), 97, 100, and 137
Workers' Compensation Regulation, Section 15

POLICY:

The legislative mandate of WCB requires that sufficient funds be available in the *Accident Fund* for the payment of present and future compensation, including the cost of administration, as estimated by ~~the Board's~~ *WCB's Actuary.* The Accident Fund is sufficiently funded when the value of all assets equals or exceeds 100% of the value of all liabilities, as reported by ~~the Board~~ WCB on a *Funding Basis*. The *Funded Ratio* of the Accident Fund represents the funding status of the fund.

The 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.

The primary goals of the Funding Policy are to:

- Ensure there is sufficient money available in the Accident Fund for the payment of present and future compensation to injured workers by minimizing the risk of being unfunded

- Minimize cost volatility for employers so that the overall average premium rate for the current year will not vary significantly over the previous year's overall average premium rate

- Minimize the total cost charged to employers by ensuring the *Funding Level* is appropriate in relation to our financial needs

- Ensure a link exists between the current and future cost of today's accidents and the premium rates paid by today's employers

As part of the duty to ensure sufficient funds are available for the payment of present and future compensation, WCB maintains a balance in the Accident Fund that exceeds 100% of total liabilities and strives to remain *Fully Funded*. Additional funds above 100% of total liabilities are required to mitigate the impact of *Funding Level Volatility* on the premium rate.

This policy is effective ~~January 1, 2023~~[Month Day, Year], except when noted otherwise in a specific policy section(s).

INTERPRETATION

1.0 Accident Fund

The Accident Fund consists of all assets, liabilities, and reserves of WCB. All money received by WCB is to be paid into the Accident Fund and all expenditures of WCB, including the costs of administering the *Workers' Compensation Act (WCA),* are to be paid from the Accident Fund.

2.0 ~~Board's~~ WCB's Actuary

The internal actuarial staff of WCB performs an annual valuation of the claim benefit liabilities to ensure the sufficiency of the Accident Fund. The valuation is reviewed by an external actuary who reports to ~~the Board~~ WCB on the valuation in accordance with generally accepted actuarial practice.

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BoD Resolution ~~**2022/06/19 November 29, 2022**~~

3.0 Funding Basis

For purposes of evaluating the funding status of the Accident Fund:

- The **assets** of the Accident Fund shall be valued after adjusting the investment portfolio for short-term market volatility. The **Smoothed Value of Assets** is determined by adjusting the value of the investment portfolio to gradually recognize differences between the actual investment return and the actuarial required rate of return over a period of five years. This smoothing approach moderates the impact of year-to-year investment fluctuations on the Funding Level, while ensuring that, over time, the Smoothed Value of Assets remains aligned with the underlying market value of the Accident Fund.
- ~~, t~~The **claim benefit liabilities** shall be valued to reflect the actuarial required real rate that is linked to the return of the investment portfolio. As determined by ~~the Board~~WCB, the actuarial required real rate of return may make a provision for adverse deviation in the liability by setting the probability of earning the required rate at higher than 50%. The higher the probability used the higher the provision for adverse deviation.

4.0 Funded Ratio and Funding Level

The Funding Level of the Accident Fund is equal to the Smoothed V~~v~~alue of ~~all~~ A~~a~~ssets divided by the value of all liabilities, as reported by ~~the Board~~WCB on a Funding Basis. This Funding Level represents the funding status of the Accident Fund. The Funding Level is expressed as a percentage of liabilities and referred to as the Funded Ratio.

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5.0 Fully Funded

The Accident Fund is considered to be sufficiently funded when funds are available in the Accident Fund for the payment of present and future compensation, including the cost of administration, as reported by ~~the Board~~WCB on a Funding Basis. For the purpose of this policy, the Accident Fund is considered fully funded when it is within the Funding Level target range of 114% to 126~~8~~%.

6.0 Funding Level Volatility

This is the amount of change expected in the Funding Level of the Accident Fund over time. This variability of the Funding Level is caused primarily by investment volatility. The Funding Level target range is set between 114% and 126~~8~~% to recognize the impact of Funding Level Volatility.

Please see Part II for additional information on the following subject:

Application

1 – Funding Level

Rescinded: *Occupational Disease Reserve (January 1, 2019)* (see Document History)

Rescinded: *Fund Balance (July 1, 2008)* (see Document History)

Previous versions

- Policy 0101 Part I - January 2019
- Policy 0101 Part I - April 2018
- Policy 0101 Part I - August 2015
- Policy 0101 Part I - November 2013
- Policy 0101 Part I - July 2008
- Policy 0101 Part I - October 2005
- Policy 0101 Part I - January 2004
- Policy 0101 Part I - January 2003
- Policy 0101 Part I - April 2002
- Policy 0101 Part I - January 2002
- Policy 0101 Part I - December 2000

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Authorization: Date:
BoD Resolution ~~**2022/06/19**~~ ~~**November 29, 2022**~~

- Policy 0101 Part I - August 2000
- Policy 0101 Part I - June 1999
- Policy 0101 Part I (consolidated manual 1st Issue) - February 1997

Alberta WCB Policies & Information

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FUNDING POLICY

Authorization: Date:
BoD Resolution ~~2022/06/19~~ ~~November 29, 2022~~

APPLICATION 1: FUNDING LEVEL

1. ***What is the Funding Level?***

The Funding Level of the Accident Fund is equal to the ~~s~~Smoothed V~~v~~alue of ~~all assets~~Assets divided by the value of all liabilities, as reported by the ~~Board~~ WCB on a Funding Basis. It represents the funding status of the Accident Fund. The Funding Level is expressed as a percentage of liabilities and referred to as the Funded Ratio.

The Funding Level target range for the Accident Fund is 114% to 126~~8~~%. In making decisions around the Funding Level, the Board of Directors does not focus on a point in time. With every decision, they look at the Funded Ratio retrospectively and prospectively to ensure decisions are made with the overall financial health of the Accident Fund in mind.

2. ***How can the Funded Ratio fall outside of the target range?***

The Funded Ratio can fall below or rise above the target range for a number of reasons.

Shortage

When the Funded Ratio falls below the target range, there is a shortage of funds. This can arise in two ways:

- The primary way is through investment deficits, which occur when investment returns fall short of the annual investment income required to service the claim liability.
- A shortage of funds can also be the result of rate-setting deficits, which occur when less money is collected in premiums than is required for a given rate year.

Excess

When the Funded Ratio rises above the target range, there is an excess of funds. Excess funds are generated in two ways:

- The primary way is through investment surpluses, which occur when investment returns exceed the

Alberta WCB Policies & Information

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APPLICATION 1: FUNDING LEVEL

	Funded Ratio outside target range (continued)	annual investment income required to service the claim liability. • Excess funds can also be generated through rate-setting surpluses, which occur when more money is collected in premiums than is required for a given rate year.
3.	***What happens if the Funded Ratio falls below 114%?***	The shortfall in the Accident Fund may be recovered through a phased levy (a funding policy requirement in the premium rate). The speed at which the Accident Fund is replenished to the Funded Ratio of 114% would be identified in the annual financial plan approved by the Board of Directors. In all cases, decisions are made in the interests of the overall financial health of the Accident Fund.
4.	***What happens if the Funded Ratio falls within the target range of 114% and 12~~8~~6%?***	This results in the overall average premium rate equaling the required costs for the payment of present and future compensation. No action is needed when the Funded Ratio falls within the target range.
5.	***What happens if the Funded Ratio rises above 126~~8~~%?***	The amount in excess of 126~~8~~% may be paid out to employers in the form of a surplus distribution. The speed at which the excess is paid out is determined by the Board of Directors. In all cases, decisions are made in the interests of the overall financial health of the Accident Fund.
6.	***Is there a minimum threshold for payment of a surplus distribution?***	The surplus distribution must exceed a threshold amount of 1.0% of the claim benefit liabilities before it will be processed. The threshold is required because of the administrative costs involved in processing the surplus distribution payments.

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Authorization: Date:
BoD Resolution ~~2022/06/19~~ ~~November 29, 2022~~

APPLICATION 1: FUNDING LEVEL

7. ***When is this policy application effective?***

This policy application (Application 1 – Funding Level) is effective ~~January 1, 2023~~[Month Day, Year], except when noted otherwise in a specific policy section(s).

Previous versions

- Policy 0101 Part II - January 2019
- Policy 0101 Part II - April 2018
- Policy 0101 Part II - August 2015
- Policy 0101 Part II - November 2013
- Policy 0101 Part II - July 2008
- Policy 0101 Part II - October 28, 2005
- Policy 0101 Part II - October 1, 2005
- Policy 0101 Part II - January 2004
- Policy 0101 Part II - April 2002
- Policy 0101 Part II - December 2000
- Policy 0101 Part II - August 2000
- Policy 0101 Part II - June 1999
- Policy 0101 Part II (consolidated manual 1st Issue) - February 1997

2026 FUNDING POLICY REVIEW

Summary of Conclusions Reached by Eckler and TELUS Health

In 2025, Eckler and TELUS Health conducted a detailed review of WCB Alberta's Funding Policy with the goal of addressing funded ratio volatility arising from investment market fluctuations. Extensive stochastic modelling of various funding policy scenarios was performed, with a focus on assessing the appropriateness of introducing asset smoothing for funding-basis financial results and their resulting impacts on levies and average premium rates.

The conclusions of the independent actuarial analyses, taken verbatim from their reports, are presented below. Both firms recommend implementing an asset smoothing technique for the calculation of the funded ratio.

Eckler (excerpt from Eckler report dated September 9, 2025)

Ultimately, the funding policy does not influence the costs of the workers' compensation system, only the distribution of these costs among generations of employers. It reflects the Board's views on the level of risks deemed acceptable over different time horizons and on the actions that will be taken in the future (surplus distributions, levies, or no action). The funding policy provides guidance to the WCB in maintaining a financially stable system that should appropriately balance its sometimes-competing goals of:

- *Minimizing the risk of being unfunded.*
- *Minimizing cost volatility for employers and the total cost charged to employers.*
- *Ensuring today's employers pay for the cost of today's accidents.*

The current funding policy uses the market value of the investment portfolio, and a target funding range of 114% - 128%. Introducing the smoothed value of assets using the nominal discount rate with amortization of "cumulative" gains or losses, reduces significantly the probability of immediate levies and essentially maintains the probability of no action: these are desirable.

Keeping the current target funding range could be an option. However, the probabilities of surplus distributions are reduced with the introduction of asset smoothing. To mitigate this disadvantage, the target funding range could be changed to 114% - 126%.

TELUS Health (Excerpt from TELUS Health report dated December 3, 2025)

We have reviewed the funding policy analysis completed by Eckler Ltd. for the Workers' Compensation Board of Alberta (the "Board"). Our key findings are summarized below:

- *The modelling approach (methods and assumptions) used in the projections appears reasonable.*
- *We produced similar results for the key metrics reported in the Eckler analysis using our own internal projection model and economic assumptions. While the results do not match exactly (nor would they be expected to), they are very similar and do not result in significantly different conclusions.*
- *Eckler's results (in terms of probabilities and distribution of outcomes) for asset smoothing appear reasonable.*
- *Eckler's results (in terms of probabilities and distribution of outcomes) for changing the target funding range from 114% - 128% to 114% - 126% appear reasonable.*
- *We believe there may be some practical issues with the application of the Board's current policy. For example, in our experience, the trigger for an immediate levy is likely to occur during challenging economic times. In this scenario, the levy's timing and potential size may elicit strong stakeholder reaction that impacts the viability of issuing them. This is unrelated to our review of Eckler's funding policy analysis and should be considered as an operational risk for your organization. We believe that the implementation of the proposed asset smoothing approach can dampen this issue by reducing the probability of immediate levies being required and reducing their average size when they do occur.*
- *The Act requires full funding. The possibility of immediate levies presents far more of an operational risk for the Board than does the possibility of surplus distribution. Lowering the bottom end of the target range would result in a greater probability of immediate levies, which would not be advisable at this time.*

ECKLER

EXECUTIVE SUMMARY – WCB - ALBERTA 2025 ASSET LIABILITY STUDY

Context

To ensure sufficient funds are available for the payment of benefits to injured workers, the Workers' Compensation Board - Alberta (WCB) maintains a balance in the Accident Fund that exceeds 100% of liabilities. With total assets of $14.4 billion to cover its total liabilities on a funding basis of $13.1 billion, the funded ratio of the WCB stands at 109.4% as at December 31, 2024. Its funding policy, which guides the funding decisions, sets a target zone of 114% to 128% for the funded ratio. When the funded ratio falls below 114%, the shortfall may be recovered through phased levies.

The WCB collects premiums annually from employers to finance its costs, including the full funded claim costs of workplace injuries occurring during the year. Recognizing the difficult economic environment in Alberta, the WCB has included a rate credit for the determination of the average premium rate since 2018, and has not charged phased levies even with the funded ratio being below 114% since the 2022 year-end.

The funded ratio since 2015 and the average premium rates per $100 of assessable earnings, required and collected as well as the rate-setting gap, are presented in the table below:

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Funded ratio	**134.3%**	**133.8%**	**127.3%**	**118.3%**	**119.2%**	**120.7%**	**120.4%**	**108.1%**	**107.3%**	**109.4%**	
Premium rate:											
• Required	0.98	1.06	1.13	1.24	1.35	1.43	1.42	1.44	1.44	1.48	1.48
• Collected	0.97	1.01	1.04	1.05	1.08	1.13	1.15	1.18	1.24	1.33	1.41
• ***Rate gap***	***0.01***	***0.05***	***0.09***	***0.19***	***0.27***	***0.30***	***0.27***	***0.26***	***0.20***	***0.15***	***0.07***

Objective of the study

The objective of the asset liability projections that have been prepared in 2025 for the WCB, in considering the current financial environment, is to review the WCB's funding policy, focusing on the possibility to introduce the smoothing of the investment assets used for financial results on a funding basis to reduce the volatility of the funded status.

Key principles of a funding policy

WCB assets should be sufficient to provide for the future costs of claims that occurred in the past (full funding). As experience unfolds differently than what was assumed in determining WCB liabilities and in establishing premiums, assets may at various times be inadequate or excessive. The funding policy provides direction on how to address the situation in such circumstances.

The funding policy provides guidance to management in maintaining a financially stable system that appropriately balances competing principles of fairness, collective liability, predictability of premiums, and financial security:

- **Fairness** involves reflecting all costs related to current accidents to current employers; however, as injuries often generate payments that are made several years after the year of accident, estimations of future costs are required, and mechanisms are necessary to adjust premiums when surpluses or deficits arise.
- **Predictability and stability of premium rates** are important to employers.
- **A funded ratio above 100% and corrective actions to maintain the ratio above 100%** contributes to the assurance for injured workers and their beneficiaries that the benefits promised will be paid when due.

WCB's funding policy

The legislative mandate of WCB requires that sufficient funds be available in the Accident Fund for the payment of present and future compensation, including the cost of administration, as estimated by the Board's actuary. The Accident Fund is sufficiently funded when the value of all assets equals or exceeds 100% of the value of all liabilities, as reported by the Board on a funding basis. In other words, the WCB should be fully funded.

The main parameters of WCB's funding policy are as follows:

- **A funded level target range of 114% to 128%:** No action to replenish the Accident Fund or to pay out a surplus distribution (green zone or no-action zone).
- **When the funded position falls below 114%**: The shortfall in the Accident Fund may be recovered through a phased levy.
- **When the funded ratio rises above 128%:** Excess may be paid out in the form of a surplus distribution, with a minimum threshold amount of 1.0% of the claim benefit liabilities.
- **If the funded ratio falls below 100%:** An immediate levy equal to the discrepancy (total liabilities minus total assets).

Projection basis for asset liability modeling

Under an asset liability study, assets and liabilities are projected year by year in the future under multiple financial scenarios in capturing how economic factors influence the results. From these projections, distributions, statistics, and probabilities of various parameters are derived, to assess the potential risks inherent to the program. For the current study, projection results have been prepared for the 2025-2034 period.

In performing the asset liability projections, we have considered:

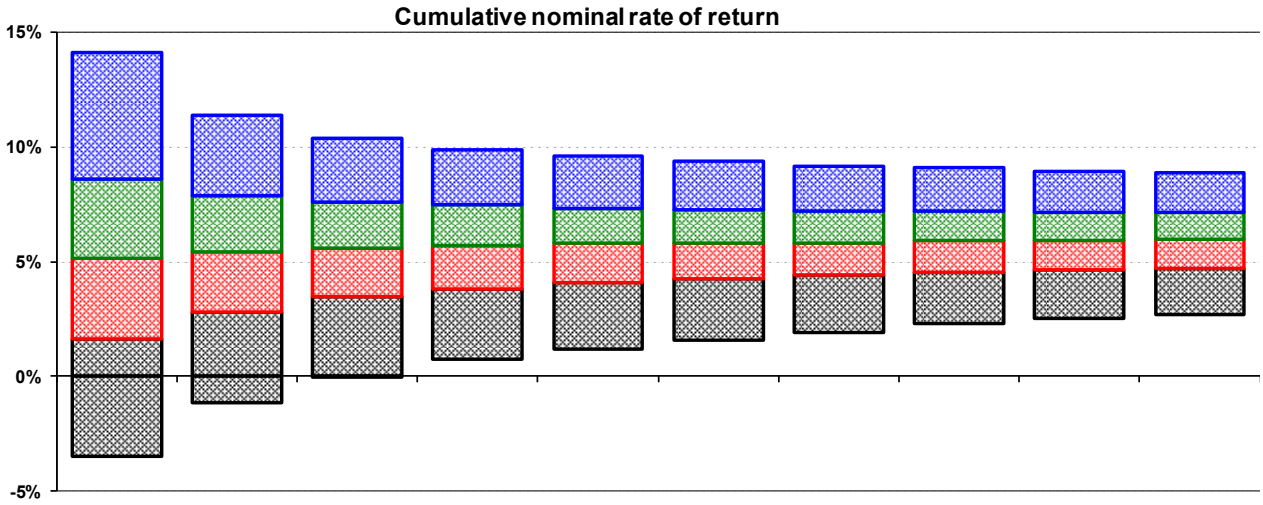
- The financial results of the WCB at December 31, 2024, with a funded ratio of 109.4%.
- The current investment and funding policies.

- Average required premium rate of $1.48 per $100 of assessable earnings, before levies, and a rate credit of $0.07 in 2025.

Sources of volatility in projection results

The sources of volatility in WCB's financial results are mainly the investment returns on the assets, and to a lesser degree the benefits being paid, influenced by inflation and claim experience.

The investment returns reflect the asset mix and the expected return of each asset category. This graph illustrates the distribution of the nominal rate of return of investments for cumulative periods of 1 to 10 years:



	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
5th percentile	14.1%	11.4%	10.4%	9.9%	9.6%	9.4%	9.1%	9.1%	8.9%	8.9%
25th percentile	8.6%	7.9%	7.6%	7.5%	7.3%	7.3%	7.2%	7.2%	7.1%	7.2%
50th percentile	5.2%	5.4%	5.6%	5.7%	5.8%	5.8%	5.8%	5.9%	5.9%	6.0%
75th percentile	1.6%	2.8%	3.5%	3.8%	4.1%	4.3%	4.4%	4.5%	4.6%	4.7%
95th percentile	-3.5%	-1.2%	0.0%	0.8%	1.2%	1.6%	1.9%	2.3%	2.5%	2.7%

As observed, the nominal rate of return is very volatile. Over a 10-year horizon, the volatility is still important: the annualized rate of return is 8.9% at the 5th percentile and 2.7% at the 95th percentile.

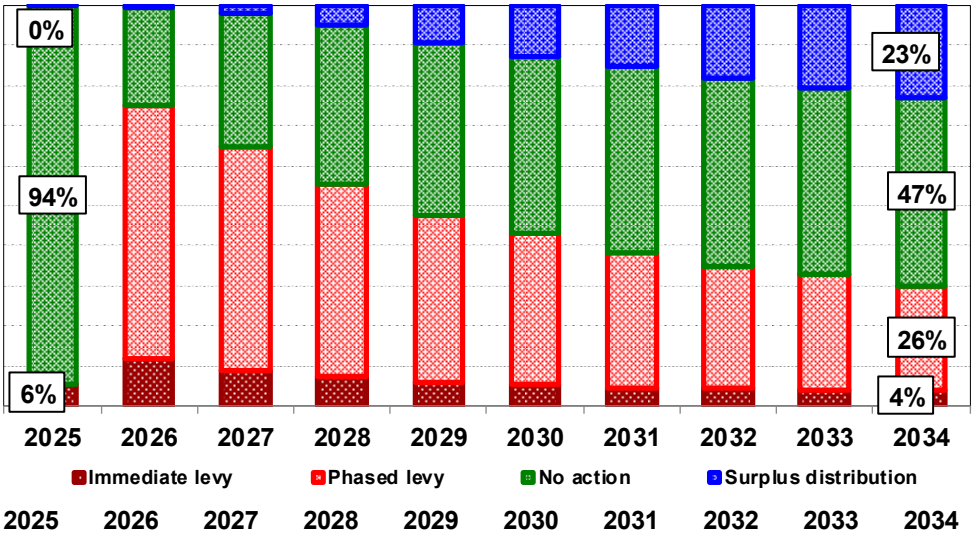
Projection results

In projecting WCB's financial position, we have observed that assets are much more volatile than liabilities, as assets are recognized at market value and are directly affected by the volatility of market rates of return, while liabilities' projections assume no changes to the actuarial assumptions.

The probabilities of surplus distributions, phased levies, and immediate levies, as well as statistics on the average amounts when they occur, are as follows for each year of the projection period:

Statistics	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Probability to have at year-end:										
Surplus distribution	0.0%	0.8%	2.0%	5.2%	9.1%	12.7%	15.0%	18.1%	20.4%	23.1%
No action	94.4%	24.4%	33.4%	39.5%	43.5%	44.1%	46.6%	47.0%	46.7%	46.8%
Levies	5.6%	74.8%	64.6%	55.3%	47.3%	43.2%	38.4%	34.9%	32.9%	30.1%
Immediate levy	*5.6%*	*11.7%*	*8.8%*	*7.2%*	*5.9%*	*5.3%*	*4.7%*	*4.3%*	*4.1%*	*4.1%*
Average amount in millions of dollars (when it occurs) of:										
Surplus distribution	485	492	549	672	785	862	924	982	1,077	1,101
Phased levy		256	253	260	273	279	297	311	321	333
Immediate levy	345	540	592	637	697	686	805	753	868	989

As observed, the funded ratio being at 109.4% at year-end 2024, the probabilities of surplus distributions are low during the first few years of the projection period, increasing progressively. The probabilities eventually reach around 23% for surplus distribution, 47% for no action and 30% for levies, as shown below:



Some probabilities over different time horizons are presented below:

Probability that, over a certain period:	3 years *2025-2027*	5 years *2025-2029*	10 years *2025-2034*
Surplus distribution paid at least once	2.5%	12.1%	44.8%
Phased levies at least once	79.9%	85.0%	90.7%
Immediate levies at least once	19.0%	24.7%	33.4%
Flip-flop situation at least once	0.2%	1.3%	3.8%
No action for all years	17.2%	8.4%	0.9%

As observed:

- There is a significant risk that the funded ratio decreases below 100%, where an immediate levy is required: a 24.7% probability that it will occur at least once over the next five years, and a 33.4% probability (about 1 chance out of 3) that the funded ratio decreases below 100% at least once over the next 10 years.
- Within the next 10 years, there is a 44.8% chance that surplus distributions will be paid at least once, and a minimal chance to be in the no-action zone (neither surplus distribution nor levies) for all years.

Impact of introducing an asset smoothing approach

We have studied the impact of introducing an asset smoothing approach to moderate the effect of investment market return volatility. The smoothing approach considers in the assets the expected investment income, as well as a portion of the investment gains or losses. Investment returns above or below the nominal discount rate are deferred and recognized over 5 years, at an annual rate of 20% of the “cumulative” gains or losses.

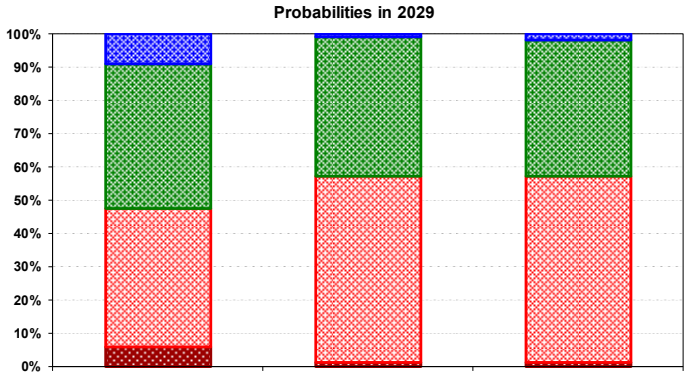
With a smoothed value of the assets:

- The volatility of the assets, and the funded ratio, are reduced significantly.
- The probability of the funded ratio decreasing below 100%, resulting in an immediate levy, is reduced considerably. In addition, if an immediate levy is required, its amount would be lower.
- Regarding phased levies, their probability increases with asset smoothing, but their amount is not impacted significantly; considering the current funded position of 109.4%, the phased levies are more prevalent during the first few years of the projection period.
- The probability of no action (no levy or surplus distribution) is slightly lower.
- The probability of surplus distributions decreases with the introduction of the asset smoothing approach, as well as the average amount.
- There is no potential flip-flop situation, where surplus distributions and levies occur in subsequent years.

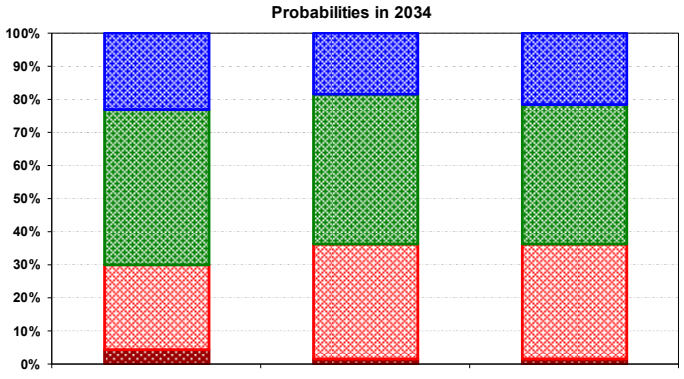
Impact of changing the target funding range to 114% - 126%

We have studied the impact of reducing the width of the target funding range from 14% to 12%, while maintaining the lower bound of the range at 114%: a target funding range of 114% to 126%, instead of 114% to 128%. A reduction of the lower bound of 114% was considered but not retained, as it would increase the risk of an immediate levy.

The following graphs compare the probabilities of surplus distributions, phased levies and immediate levies at 2029 and 2034 year-ends for the current policy, with the market value of assets, and for the smoothed asset approach, with 114% - 128 % and 114% - 126% target funding ranges:



Smoothing	No	Yes	Yes
Lower bound	114%	114%	114%
Upper bound	128%	128%	126%
Range	14%	14%	12%
Surplus distribution	9.1%	0.8%	1.9%
No action	43.5%	41.9%	40.7%
Phased levy	41.4%	56.1%	56.1%
Immediate levy	5.9%	1.2%	1.2%



Smoothing	No	Yes	Yes
Lower bound	114%	114%	114%
Upper bound	128%	128%	126%
Range	14%	14%	12%
Surplus distribution	23.1%	18.4%	21.5%
No action	46.8%	45.2%	42.2%
Phased levy	25.9%	34.8%	34.8%
Immediate levy	4.1%	1.5%	1.5%

As observed, the reduction of the upper bound to 126% has a limited effect on phased and immediate levies and:

- Increases the probabilities of surplus distribution (mostly in the long term as the funded ratio is currently at 109.4%).
- Reduces the probabilities of no action (no surplus distribution nor levies).

The probabilities of at least one immediate levy over a certain time horizon compare as follows:

Smoothing	Target range			3 years	5 years	10 years
	Lower	Upper	Width	*2025-2027*	*2025-2029*	*2025-2034*
No	114%	128%	14%	19.0%	24.7%	33.4%
Yes	114%	128%	14%	0.4%	1.6%	4.4%
Yes	114%	126%	12%	0.4%	1.6%	4.4%

Similarly, the probabilities of at least one surplus distribution over a certain time horizon compare as follows:

Smoothing	Target range			3 years	5 years	10 years
	Lower	Upper	Width	*2025-2027*	*2025-2029*	*2025-2034*
No	114%	128%	14%	2.5%	12.1%	44.8%
Yes	114%	128%	14%	0.0%	0.8%	21.3%
Yes	114%	126%	12%	0.0%	1.9%	25.9%

Cost of not collecting phased levies

To measure the impact of not collecting phased levies, we have prepared stochastic projections assuming no phased levies are collected in the premium rate in the future. The most significant impact of no phased levies is the increase in the probability of immediate levies. Assuming the smoothed value of assets:

- At year-end 2029: from 1.2% to 8.8%.
- At year-end 2034: from 1.5% to 14.0%.
- At least once over the next 5 years: from 1.6% to 9.4%.
- At least once over the next 10 years: from 4.4% to 22.8%.

Conclusions

Ultimately, the funding policy does not influence the costs of the workers' compensation system, only the distribution of these costs among generations of employers. It reflects the Board's views on the level of risks deemed acceptable over different time horizons and on the actions that will be taken in the future (surplus distributions, levies, or no action). The funding policy provides guidance to the WCB in maintaining a financially stable system that should appropriately balance its sometimes-competing goals of:

- Minimizing the risk of being unfunded.
- Minimizing cost volatility for employers and the total cost charged to employers.
- Ensuring today's employers pay for the cost of today's accidents.

The current funding policy uses the market value of the investment portfolio, and a target funding range of 114% - 128%. Introducing the smoothed value of assets using the nominal discount rate with amortization of "cumulative" gains or losses, reduces significantly the probability of immediate levies and essentially maintains the probability of no action: these are desirable.

Keeping the current target funding range could be an option. However, the probabilities of surplus distributions are reduced with the introduction of asset smoothing. To mitigate this disadvantage, the target funding range could be changed to 114% - 126%.

We are of the opinion that the funding policy should be modified with the application of a smoothed value of assets using nominal discount rate with amortization of "cumulative" gains or losses. This change would help the WCB's in meeting its funding goals.

Yours sincerely,

Richard Larouche, FCIA, FSA
Principal

Thane MacKay, FCIA, FSA
Principal

September 9, 2025

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December 3, 2025

Mr. Bill Xu, FCAS, FCIA
Chief Actuary
Workers' Compensation Board - Alberta
9925 107 Street
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Bill.Xu@wcb.ab.ca

Dear Bill:

Re: Peer Review of Funding Policy

We have reviewed the funding policy analysis completed by Eckler Ltd. for the Workers' Compensation Board of Alberta (the "Board"). Our key findings are summarized below:

- The modelling approach (methods and assumptions) used in the projections appears reasonable.
- We produced similar results for the key metrics reported in the Eckler analysis using our own internal projection model and economic assumptions. While the results do not match exactly (nor would they be expected to), they are very similar and do not result in significantly different conclusions.
- Eckler's results (in terms of probabilities and distribution of outcomes) for asset smoothing appear reasonable.
- Eckler's results (in terms of probabilities and distribution of outcomes) for changing the target funding range from 114% - 128% to 114% - 126% appear reasonable.
- Eckler's results (in terms of probabilities and distribution of outcomes) for the impact of not collecting phased levies appear reasonable.
- We believe there may be some practical issues with the application of the Board's current policy. For example, in our experience, the trigger for an immediate levy is likely to occur during challenging economic times. In this scenario, the levy's timing and potential size may elicit strong stakeholder reaction that impacts the viability of issuing them. This is unrelated to our review of Eckler's funding policy analysis and should be considered as an operational risk for your organization. We believe that the implementation of the proposed asset smoothing approach can dampen this issue by reducing the probability of immediate levies being required and reducing their average size when they do occur.
- The proposed asset smoothing approach can produce smoothed asset values that differ from market value by more than 10% in some scenarios, which may not be aligned with one of the desirable characteristics of a smoothing method (i.e. smoothed value should not unduly deviate from

market value). A corridor of 10% around the market value could be considered (this approach is used by the Saskatchewan Workers' Compensation Board).

- In addition to the scenarios that have already been tested by Eckler, it may be helpful to include stress tests to assess the viability of the changes to funding policy and asset measurement under consideration. Stress tests could include, but would not be limited to:
  - Alternative investment return scenarios due to the impact of climate; and
  - Increased costs associated with future new injuries, particularly as coverage related to work-related mental health claims continues to expand in other jurisdictions across Canada.
- It may also be helpful to test and quantify the impact of different investment strategies on key metrics.

This letter contains further details on our approach and results.

Data

For our review, we were provided with the following three main files:

1. A file containing projected cash flows from the Board's year-end 2024 actuarial valuation of its benefits liability. This file contained projected cash flows for each future year broken down by major benefit type and inflation category for both regular in-force and outstanding occupational disease claims. It also contained projected benefit payments for the 2024 accident year separately. ("2024 YE Cashflow – Final (Funding).xlsx")

2. A reference document outlining the approach, methods and assumptions used by Eckler in its analysis. ("Reference Document 2025 ALM 20250424.pdf")

3. A report containing the results of Eckler's analysis. ("WCB-AB ALM results – 20250909 Report.pdf")

This data was supplemented with information from the 2024 valuation report, the funding policy and the investment policy. These additional information sources were used to confirm our understanding and/or validate our internal modelling.

Methodology

To begin, we critically reviewed the Reference document (#2 in Data section above) to assess the reasonableness of the approach used in the Eckler analysis. Our review of the modelling approach was based on our experience with workers' compensation liabilities and funding policy/asset-liability projections completed for other workers' compensation boards in Canada.

Next, we validated the cash flow information provided (#1 in Data section above) to ensure we were properly interpreting the data. Specifically, we used the unindexed cash flows to independently replicate the indexed cash flows, year-end liability results, and 2024 new accident costs.

Finally, we programmed and ran our own internal projection model as an independent, parallel test of the results of Eckler's analysis (#3 in Data section above). Our model used the benefit cash flow information provided and the same general methodology as outlined in the Reference document. In particular, we programmed the operation of the Board's funding policy based on the description included in the Reference document. However, the economic assumptions (inflation and asset returns) used in our model were obtained from TELUS Health's Investment and Risk practice, rather than those outlined in the Reference document. In this way, our parallel test results are a joint test of both the modelling methodology and economic assumptions.

Using our internal model, we simulated 2,000 pathwise-consistent, economic scenarios for the next 10 years. For each scenario we captured the same metrics as reported in the results document ("WCB-AB ALM results – 20250909 Report.pdf") for comparison.

Results

We find the modelling approach (methods & assumptions) used by Eckler as outlined in the Reference document to be reasonable for the purpose of the analysis.

In terms of the actual modelling results, our independent model produced results that closely matched the Eckler results for the key metrics tracked in the analysis. There are some differences in the tails (i.e., 5th or 95th percentile) of distributions for certain metrics and measures that are based on them. These differences are largely due to differences in the underlying volatility assumptions for economic variables between Ecker and TELUS Health. In particular, TELUS Health's long term asset return and inflation scenarios are slightly less volatile than Eckler's. We also noticed Eckler's median returns are lower than TELUS Health's median returns in the early years; both sets of median returns converge in the long term. This resulted in our projections showing a greater potential for surplus distributions in earlier years. As a test, we adjusted the median returns of our economic assumption to match Eckler's more closely and re-ran our model. This test run produced a better match compared to the original run.

Overall, there is good correspondence in the results for the metrics examined. Any differences in results are relatively minor and well within a normal range for acceptable deviations in practice. Importantly, the same general conclusions would be drawn under either set of results, including:

- The real rate of return is expected to exceed the valuation assumption (3.6%): Median 10-year annualized real rate of return of 3.9% for Eckler and 4.1% for TELUS Health.
- There is a material probability of phased levies or surplus disbursements in the short (3 years), medium (5 years) and long (10 years) term. Our analysis does not refute Eckler's assertion that there are probabilities of phased levies of 85% and 91% over the next 5 and 10 years, respectively. When these phased levies are triggered, the average rate increase is between 17 and 19 cents. Our results align with these conclusions. Based on our modelling, the likelihood of a phased levy is 74% and 85% over the next 5 year period and 10 year period respectively, with an average rate increase between 15 and 18 cents.

- There is a material probability of at least one immediate levy in the next 3, 5 and 10 years. Eckler's results show that for the next 3 years, there is a 19% chance of an immediate levy. The probability grows to 25% when considering the next 5 years and 33% over the next 10 years. The average size of the immediate levy when it occurs is between 41 and 52 cents. Our analysis supports these results, having demonstrated the likelihood of an immediate levy to be 16%, 21% and 27% over the next 3 year period, 5 year period and 10 year period respectively, with an average rate increase between 34 and 41 cents.
- There is a small probability of "flip-flop" situations in the next 10 years (i.e., levy followed by surplus disbursement the next year or vice versa). While this is important information to monitor, we view the likelihood of this event as being relatively small, so it does not represent a major concern for us.
- When required, the size of surplus distributions can vary greatly and can be quite significant. Eckler's results show that average amounts can reach up to $0.64 per $100 of covered payroll (43% of the assumed average required premium rate of $1.48). Our analysis shows similar results.
- As a result of the volatility in surplus distributions and immediate levies, adjustments to the average premium rate can vary greatly across different scenarios.
- Applying asset smoothing for purposes of calculation of the funded ratio results in a reduction in its volatility. Eckler's analysis illustrates that the probability of immediate levies and surplus distribution is significantly reduced. Our analysis shows a similar impact.
- Our analysis also confirms that changing the target funding range from 114% - 128% to 114% - 126% does not have a material impact on results.

For more detailed information on our testing results compared against Eckler's results, please see the Appendix.

Strategic Considerations

Across the country, each jurisdiction adopts a funding policy that meets its own individual needs. There is no one correct approach. Each jurisdiction must balance the needs of all its stakeholders in terms of assessment rate volatility, funding level stability, benefit security and competitiveness. In our experience, while funding policy features vary across provinces and territories, the common trait among jurisdictions that have been successful in the financial stewardship of their Fund is discipline. From our perspective, rate-setting discipline usually involves two critical components:

- Collecting sufficient revenue for current year injuries – Regardless of a jurisdiction's funding policy triggers, the starting point for rate setting is charging an average rate that is sufficient to cover the cost of new injuries and operating expenses.
- Increasing rates when needed – At some point, a jurisdiction is faced with the decision to include a rate surcharge (or alternatively, removing a rate subsidy) in order to move the funding level towards its intended target. In such circumstances where a rate surcharge is required, most jurisdictions adopt a longer amortization period in order mitigate the rate impact to employers.

The current environment provides an example of the potential difficulty involved with increasing premiums during challenging economic times. There has been a subsidy implicit in the Board's premium rates for the past decade, initially implemented when the funding ratio was above the target range. However, coming out of the challenging economic environment of the COVID-19 pandemic, despite funded ratios below the target range in recent years, subsidies have remained in the average premium rates charged to employers; albeit at a gradually reducing level. While the COVID-19 pandemic, and the subsequent economic uncertainty driven by the ongoing worldwide tariff situation is certainly a unique situation, it does highlight the difficulty involved with making required rate increases in challenging environments.

While we have not been part of your annual rate setting process, we anticipate that there has been healthy debate internally (and externally with your stakeholders) around the speed at which the Board increases the average rate to collect the full annual cost of the system (i.e. the $1.48). This is a common debate in jurisdictions.

We have a practical concern around the Board's ability to implement an immediate levy. As the projections show, the immediate levy under the Board's funding policy works mathematically to return the Board to 100% funded when it falls below that threshold. However, the projections implicitly assume that any immediate levy is automatically implemented at the calculated size when required. The size of the immediate levy can be significant, requiring $0.41 to $0.52 (28% to 35% of regular assessments (on average) and up to $0.90 (61% of regular assessments in the more extreme scenarios (5th percentile). Further, scenarios that require an immediate levy may well be accompanied by a challenging economic climate. In such a scenario, it is reasonable to expect that there could be considerable pushback from stakeholders in response to a significant immediate levy. It is important to consider the following questions:

- How would the Board respond in such a situation?
- Would it be able to implement the full immediate levy required by its funding policy in all potential scenarios?

We note that similar questions are relevant to other Boards as well, especially if their funding policy was developed during a period when their funding situation was strong. To the best of our knowledge, the Board has never been in a position where an immediate levy was required so this scenario has not been tested in the past. But, it is a worthwhile internal exercise to examine the Board's ability to charge an immediate levy that could exceed 50% of annual revenue. The answer to this question when posed in other jurisdictions has generally been "No – that is not a practical solution for us", which is the main reason why other jurisdictions generally use an amortization period ranging from 5 to 15 years.
In addition, there are some secondary concerns with the immediate levy that we raise for consideration:

- As we understand the Board's funding policy based on the description in the Reference document, immediate levies and surplus disbursements are collected/paid in the calendar year following the year-end that gave rise to them. This timing may not be a big concern for disbursements because receiving a payout of surplus is likely to be a welcome surprise for most employers. However, in the

case of levies requiring additional funds payable by employers, the timing can be problematic and is particularly acute given the potential size of these charges. In our experience, employers typically want to know their next year's assessment rate prior to year-end so they can budget appropriately. It is our understanding that an immediate levy has not been implemented in recent history and it is not clear to us how this would unfold from a budgeting and communications standpoint.

- The group of employers responsible for paying the immediate levy is not clear to us. Is it charged to employers who were active during the year that led to the declaration of an immediate levy? Is it charged to employers who are active the following year (similar to a phased levy)? Is it based on some recent history prior to immediate levy? And how is it charged – as a flat percentage of payroll to all affected employers or as a flat gross-up applied to their assessments? These choices can have important equity implications. It is possible that these issues have already been decided upon and we are not aware. It is worthwhile to note that many of the equity issues noted above also apply in the case of surplus disbursements but are arguably less controversial and likely already resolved given that surplus disbursements have been made in the recent past. Given that there is a 1 in 4 chance that an immediate levy will be required in the next five years, it would make sense for the Board to review its intended allocation approach for affected employers.

The implementation of asset smoothing dampens the above concerns around the Board's ability to implement an immediate levy as projections show both a reduced likelihood of an immediate levy being triggered, and a reduced size on average when one is needed. Eckler's results show that for the next 3 years, the probability of an immediate levy would be less than 1%. The probability grows when considering the next 10 years, but remains below 2%. The average size of the immediate levy when it occurs is between 6 and 22 cents. Our analysis supports these results with comparable outcomes.

Eckler's report considers whether the smoothing approach meets six desirable characteristics in the selection of an appropriate asset valuation method as set out in the *Educational Note on Guidance on Asset Valuation Methods* published in February 2024 by the Committee on Pension Plan Financial Reporting of the Canadian Institute of Actuaries. While this particular educational note provides guidance for pension plans, given no such note presently exists for workers' compensation, it can still be used for help providing guiding principles. The second consideration is "It should not unduly deviate from market value and consider using a corridor if it does."

Under the scenarios representing Eckler's 5th and 95th percentiles, the smoothed value varies from market value by more than 10%. Of Canadian Workers' Compensation Boards that currently employ asset smoothing, it is worth noting that the Saskatchewan Workers' Compensation Board's sufficiency policy contains a provision that explicitly deals with this consideration: "To ensure that the value of assets used in the Sufficiency Ratio does not differ excessively from the market value of assets, the total of the Net Smoothing Adjustment at any calculation point will be capped at a maximum of plus or minus 10 per cent of the market value of assets."

We note that the timing of implementation of asset smoothing can be important. If, at the outset, assets are overvalued or undervalued, the risk could be greater of one of the "tail events" illustrated by the 5th or 95th percentile of scenarios. Without use of a failsafe check that the smoothed value cannot deviate from market value by more than 10% for example, in a situation with a multi-year sustained correction of asset values, surplus distributions or phased or immediate levies would be understated delaying a

return to the no action zone for purposes of assessment rates. This is of course the intent of asset smoothing, rate stability; however in periods of sustained investment gains or sustained investment losses it can result in a funding ratio that is ultimately further from the no action zone than if smoothing had not been in place.

Other Comments

In addition to the scenarios that have already been tested by Eckler, it may be helpful to review other scenarios or use the model to support other strategic decisions. In particular, the following could be reviewed:

- Climate scenarios – Climate change is expected to have an increasingly material impact on workers' compensation boards and injury rates in the future. Our economic model enables us to test the impact of five distinct climate scenarios, ranging from "Net-Zero" to "High Warming." These scenarios can be combined with stressed assumptions for future new injuries to assess the long-term sustainability of the system under various climate pathways. This analysis provides valuable insights into potential risks and helps inform strategic planning in an evolving environmental landscape.
- Investment policy – While a robust funding policy is essential to achieving the Board's objectives, the investment policy can also significantly influence outcomes. Our model incorporates the investment policy as a key input, allowing us to test and quantify the impact of different investment strategies on critical metrics. This capability enables scenario analysis to identify optimal investment approaches that balance risk and return while supporting the Board's long-term sustainability goals.

Conclusions

The analysis performed by Eckler in assessing the current funding policy appears to be reasonable and their methodology is sound. From an actuarial standpoint, we are comfortable with the results of the analysis.

A concern we have is the viability of the funding policy when an immediate or phased levy is required. In that context, the current funding policy may represent an operational risk to the Board (instead of an actuarial risk). In our experience, the trigger for an immediate levy is likely to occur during challenging economic times. The Board should consider the viability of issuing these immediate levies on top of annual premium rates. We would anticipate a strong reaction from both employer stakeholders as well as Government. In addition, the Board should also consider the length of period used to collect the phased levy. The existing funding policy gives the Board of Directors discretion in determining the speed at which return to the target funding range is targeted. However, the 4-year target timeframe used in Eckler's modeling is at the more aggressive end of the spectrum compared to other jurisdictions in Canada. We believe that the implementation of the proposed asset smoothing approach would materially dampen this issue by reducing the probability of immediate levies being required and reducing their average size when they do occur.

From our perspective, if a jurisdiction is unable to follow its funding policy under challenging but plausible scenarios, then it would be best to adjust the policy to be something it can realistically follow with discipline.

In addition to our review of Eckler's analysis, we have been asked to provide our views on the current funding target range of 114% - 128%, and on reducing the target range to 114% - 126%. From our perspective, the current target funding range is appropriate and decreasing the upper bound by 2% would not have a material impact and remains appropriate. Our rationale is as follows:

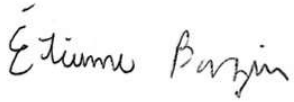
- The target average rate includes a $0.07 rate credit in 2025 despite the funding level of 109.4% being below the target range. Given this starting point for modeling, lowering the upper bound of the target range is not expected to materially impact rates in the short to medium term, especially if asset smoothing is adopted.
- The Act requires full funding. The possibility of immediate levies presents far more of an operational risk for the Board than does the possibility of surplus distribution. Lowering the bottom end of the target range would result in a greater probability of immediate levies, which would not be advisable at this time. However, a reduction in the upper end of the range from 128% to 126% does not result in notable increases in the likelihood of immediate levies, with only a 4.4% chance of at least one occurring over the next 10 years according to Eckler's modeling.

In our experience, it is better to review a funding policy in its entirety as an organization's goals and priorities evolve. Reviewing and adopting a change to a specific component within the policy, while not reviewing the potential impact of other policy components, can sometimes have unexpected consequences. More specific to your situation, adopting a lower upper end of your target funding range while not also implementing asset smoothing increases the likelihood of an immediate levy. We therefore recommend that if any of the changes being contemplated are implemented, both are. Furthermore, we recommend that a cap or failsafe be included whereby the smoothed value of the assets not be allowed to deviate from market value by more than 10% to better fit the desirable characteristic set out in the Note on Guidance on Asset Valuation Methods that the asset valuation method should not unduly deviate from market value. This also has the desirable impact of reducing the likelihood of prolonging periods of surplus distribution or phased levies.

We trust this information is helpful. If you have any questions or require anything further, please do not hesitate to contact us.

Sincerely,

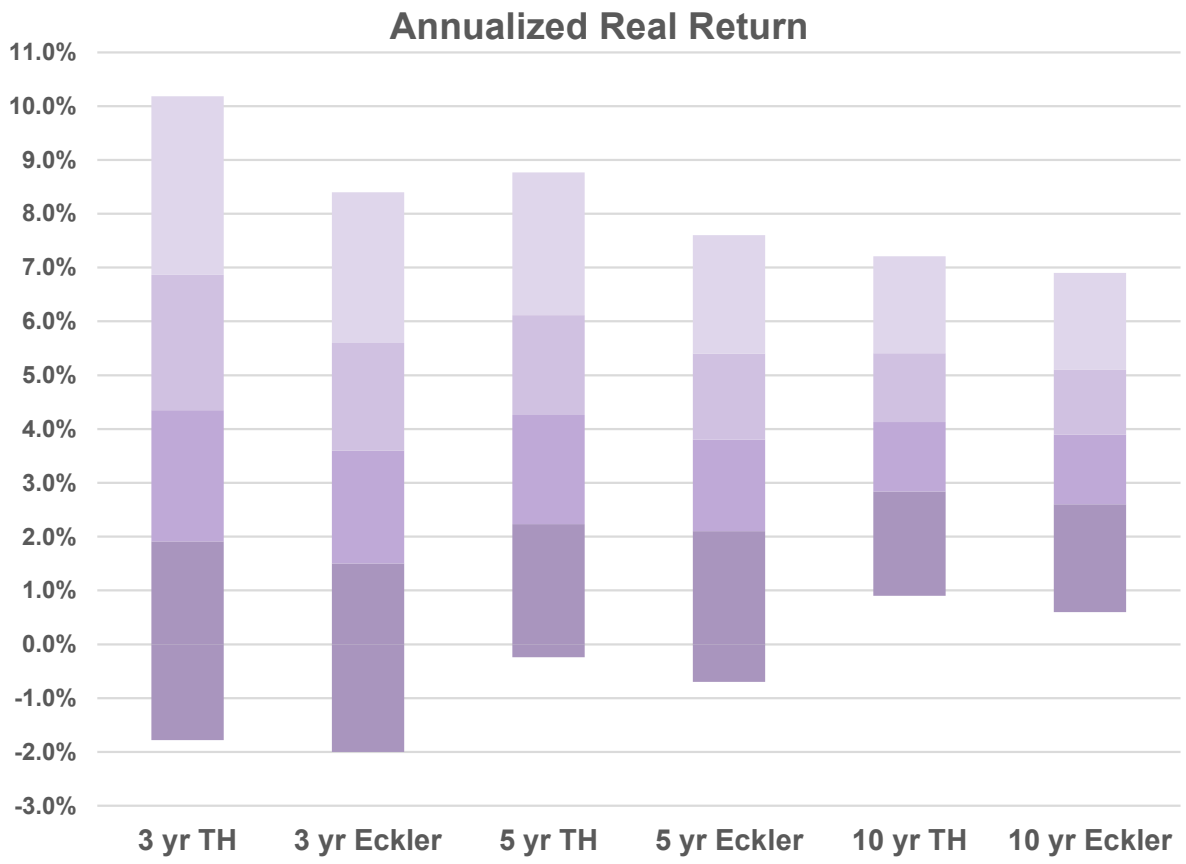
Jeffrey Queen, FCIA
Principal



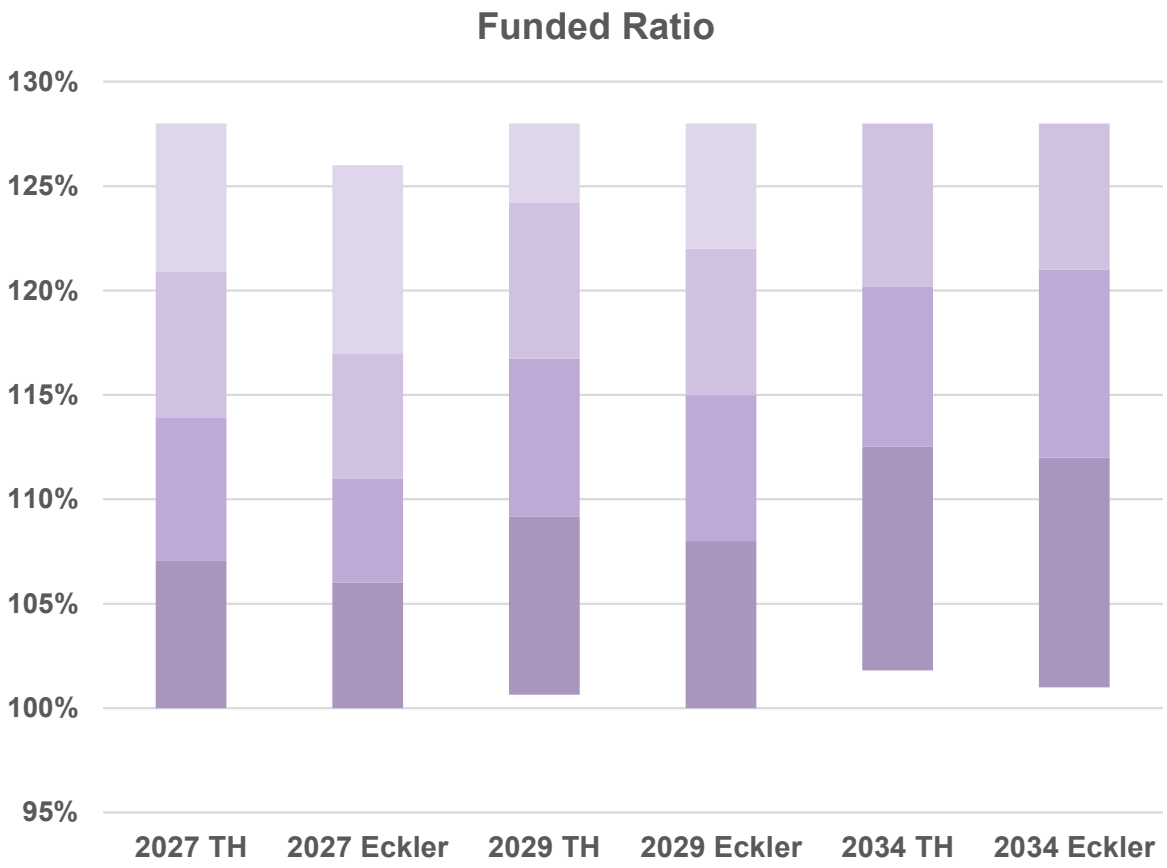
Étienne Bazin, FCIA
Principal

Appendix A

This appendix contains select statistics from our funding policy modelling of the base scenario, along with corresponding figures from Eckler's analysis for comparison. More details are available upon request.



	3 yr TH	3 yr Eckler	5 yr TH	5 yr Eckler	10 yr TH	10 yr Eckler
5th percentile	10.2%	8.4%	8.8%	7.6%	7.2%	6.9%
25th percentile	6.9%	5.6%	6.1%	5.4%	5.4%	5.1%
50th percentile	4.4%	3.6%	4.3%	3.8%	4.1%	3.9%
75th percentile	1.9%	1.5%	2.2%	2.1%	2.8%	2.6%
95th percentile	-1.8%	-2.0%	-0.2%	-0.7%	0.9%	0.6%



	2027 TH	2027 Eckler	2029 TH	2029 Eckler	2034 TH	2034 Eckler
5th percentile	128%	126%	128%	128%	128%	128%
25th percentile	121%	117%	124%	122%	128%	128%
50th percentile	114%	111%	117%	115%	120%	121%
75th percentile	107%	106%	109%	108%	113%	112%
95th percentile	100%	100%	101%	100%	102%	101%

Probability of at least one:	3 years (2025 – 2027)	5 years (2025 – 2029)	10 years (2025 – 2034)
Surplus Distribution			
TELUS Health	9%	24%	55%
Eckler	3%	12%	45%
Phased Levy			
TELUS Health	67%	74%	85%
Eckler	80%	85%	91%
Immediate Levy			
TELUS Health	16%	21%	27%
Eckler	19%	25%	33%

Probability as at Year-End:	2027	2029	2034
Surplus Distribution			
TELUS Health	8%	14%	23%
Eckler	2%	9%	23%
Phased Levy			
TELUS Health	49%	40%	29%
Eckler	63%	46%	29%
Immediate Levy			
TELUS Health	6%	4%	4%
Eckler	9%	6%	4%

Average Amount When it Occurs (per $100 of Assessable Payroll)	2027	2029	2034
Surplus Distribution			
TELUS Health	$ 0.53	$ 0.70	$ 0.70
Eckler	$ 0.40	$ 0.54	$ 0.63
Phased Levy			
TELUS Health	$ 0.18	$ 0.17	$ 0.15
Eckler	$ 0.18	$ 0.17	$ 0.17
Immediate Levy			
TELUS Health	$ 0.41	$ 0.34	$ 0.37
Eckler	$ 0.43	$ 0.46	$ 0.52