

# Cost of Living Adjustment (COLA) 2021

You have been hurt in a work accident and may be receiving long-term wage loss benefits from us. It is important that wage loss benefits fairly reflect what a worker's earnings were at the time of accident.

Section 59 of the [Workers' Compensation Act](#) gives us the authority to adjust long-term benefits yearly using a standard formula. This is known as a cost of living adjustment (COLA) and is used to prevent a decrease in benefits due to inflation. COLA restates the date of accident earnings in current dollars so the wage loss benefits of today reflect the real wage loss.

## Are all workers entitled to a COLA on their wage loss benefits?

When a worker is receiving benefits two years or more after their accident, they may be entitled to have a COLA applied yearly to their rate.

A COLA is applied when the worker's rate is based on earnings equal to or less than the maximum compensable earnings amount for the year.

For example, the maximum compensable earnings amount for 2021 is \$98,700. To receive a COLA in 2021, the worker's rate must be based on earnings equal to or less than \$98,700.

## How is COLA calculated?

COLA is calculated based on the change in the Alberta Consumer Price Index (ACPI) for 12 months, ending September 30, less 0.5 per cent.

This method, based on a rolling 12-month average, is commonly used by pension groups and is considered to be a fair representation of the marketplace. Cost of living adjustments are effective January 1 each year.

## Rates for 2021

Item	Rate for 2021
COLA	0.84%
Effective date	January 1, 2021
Maximum monthly PTD* rate	\$5,435.13
Minimum monthly PTD* rate	\$1,877.72
Child's monthly pension rate	\$286.91
Minimum NELP*	\$1,908.19
Maximum NELP*	\$95,409.26
Maximum home maintenance allowance—level 1	\$239.72
Maximum home maintenance allowance—level 2	\$2,193.81

\*PTD = *Permanant total disability*

\*NELP = *Non economic loss payment*

## Why base adjustments on a consumer price index?

The Alberta economy drives the cost of living adjustment from year to year. The Alberta Consumer Price Index (ACPI) is the most accurate reflection of cost-of-living for most workers. By reflecting annual changes in the consumer price index, COLA ensures long-range stability and fair benefits for workers.

## Why is 0.5% deducted in the current formula?

Although the consumer price index is the most accurate indicator of cost-of-living, Bank of Canada studies (1993, 2005 and updated in 2012) have shown that consumer price indexes consistently over-estimate the effect of price changes.

The Bank of Canada studies estimate the bias at approximately 0.5 per cent, regardless of the actual rate of inflation and concluded the bias results from four major factors:

**Commodity-substitution bias.** The methodology does not capture the ability of consumers to choose less expensive goods in response to price changes.

**Outlet-substitution bias.** The methodology does not capture the cost savings from shifting to lower-priced retail outlets.

**New-goods bias.** With a basket updated only every four years, new products or brands may be excluded, and gains from the availability of a broader selection of goods and brands are not captured.

**Quality-adjustment bias.** Efforts to separate quality improvements from price movements may not always be captured correctly.

Taking the above into account, the formula we use for COLA includes a 0.5 per cent adjustment to the change in the Alberta Consumer Price Index to more accurately reflect the real impact of price changes.

