Alberta WCB Policies & Information	Chapter: **GENERAL POLICIES**	
	Subject: **FUNDING POLICY**	
	Authorization: **BoD Resolution 2018/07/40**	Date: **November 27, 2018**

REFERENCE:

Workers' Compensation Act, RSA 2000, Sections 90, 91, 92, 93(6), 97, 100, 136.1, 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 Actuary.* The Accident Fund is considered to be sufficiently or *Fully Funded* when the value of all assets equals or exceeds 100% of the value of all liabilities. 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 includes a provision for long latency occupational diseases. 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, 2019, 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 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 on the valuation in accordance with generally accepted actuarial practice.

3.0 Fully Funded

The Accident Fund is considered to be sufficiently funded when the total of all assets equals or exceeds 100% of the total liabilities. For the purpose of this policy, the Accident Fund is considered fully funded when it is within the Funded Ratio target range of 114% to 128%.

4.0	**Funding Level**	The Funding Level of the Accident Fund is equal to the value of all assets divided by the value of all liabilities, as reported by the Board. 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.
5.0	**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 Funded Ratio target range is set between 114% and 128% 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 1 - April 2018
- Policy 0101 Part 1 - August 2015
- Policy 0101 Part 1 - 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
- Policy 0101 Part I - August 2000
- Policy 0101 Part I - June 1999
- Policy 0101 Part I (consolidated manual 1st Issue) - February 1997

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APPLICATION 1: FUNDING LEVEL

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

The Funding Level of the Accident Fund is equal to the value of all assets divided by the value of all liabilities, as reported by the Board. 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 Funded Ratio target range for the Accident Fund is 114% to 128%. In making decisions around the Funded Ratio, 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 annual investment income required to service the claim liability.

APPLICATION 1: FUNDING LEVEL

	Funded Ratio outside target range (continued)	• 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 would be recovered through a special 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.
4.	***What happens if the Funded Ratio falls within the target range of 114% and 128%?***	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 128%?***	When the Funded Ratio rises above 128%, the Board of Directors may allocate the amount in excess of 128% as follows: 1. ***Repayment of special levies and premium rate surpluses:*** Employers bear the risk of funding the system, including the risk of special levies* (see question 3 above). Any special levies collected over the past three years that have not been given back to employers through this policy application are calculated and added to the amount available to employers. As well, when there is a premium rate-setting surplus in the immediately preceding fiscal year, the amount of the rate-setting surplus is added to the amount available to employers. **Worker benefits are guaranteed whether the fund is in a surplus or deficit position. Employers are responsible for making up any shortfalls through*

APPLICATION 1: FUNDING LEVEL

Funded Ratio rises above 128% (continued)

special funding levies. Workers and employers would be treated disproportionately if this fact was not taken into consideration when determining the distribution of excess funds.

2. ***Remaining amounts are available for disbursement:***
   - to fund approved initiatives** for the purpose of improving the health and safety of workers, and
   - to employers in the form of a special surplus distribution.

   ***The Board of Directors will seek input from stakeholders prior to approving these initiatives in order to ensure effective use of these funds.*

In certain circumstances, in order to stabilize premium rates against business fluctuations and premium rate volatility, the Board may authorize a drawdown of the Accident Fund to cover premium rate subsidies, if any, that are included in premium rates.

In all cases, decisions are made in the interests of the overall financial health of the Accident Fund.

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

This policy application (Application 1 – Funding Level) is effective January 1, 2019, except when noted otherwise in a specific policy section(s).

Previous versions

- Policy 0101 Part II - April 2018
- Policy 0101 Part II - August 2015
- Policy 0101 Part II - November 2013
- Policy 0101 Part II - July 2008

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APPLICATION 1: FUNDING LEVEL

- 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