

The WCB's Funding Policy: Saskatchewan Chamber of Commerce's response to the discussion paper

February 2017

Thank you for allowing the Saskatchewan Chamber of Commerce to provide feedback on the discussion paper regarding the WCB's Funding Policy. As the "Voice of Business" in Saskatchewan, the Saskatchewan Chamber is uniquely well positioned to provide input to the Workers' Compensation Board as we represent private sector businesses of every size, from every industry, and from every region of the province.

As worker compensation is entirely employer funded it is our members that will be impacted by any changes to the funding policy. As such we encourage the WCB to move forward in its funding policy review while adhering to a few core principles:

1. Premium stability is crucial. Employers need to be able to generally predict what their costs will be year-over-year to enable future planning.
2. Costs should be kept as low as possible. While linked as necessary to stability, costs should be minimized to support payroll growth and reinvestment of resources into expansion of the businesses.
3. Any changes need to bring additional clarity to the system, and operate in a consistent, predictable manner. The workers' compensation system, particularly as it relates to funding, is already poorly understood by the employer community and every effort should be taken to simplify its operation.

Beyond the funding policy, the Saskatchewan Chamber of Commerce encourages the WCB to incorporate these principles into all of its policy making activities.

Response to WCB Funding Policy Considerations

WCB Consideration 1: Move to fair market value of assets for purposes of determining the funding percentage

The Saskatchewan Chamber of Commerce agrees with the WCB's current funding policy that only considers realized investment income. The Chamber does not believe a change should be made to incorporate unrealized investment income or losses while calculating the WCB's funded position as market value fluctuations on investment assets are too unpredictable to ensue financial and premium stability. In addition to this the Chamber anticipates market volatility to continue and increase over the medium term. We recognize that using the fair market value of assets could add additional clarity to the WCB's financial position for stakeholders, however; the threat of volatility and the unpredictable impact

on rates year-over-year is unacceptable for our businesses that need premium stability for planning purposes. This concern is magnified as we recommend shortening the surplus distribution and shortfall recover periods. The Saskatchewan Chamber of Commerce recommends that the WCB does not move to fair market value of assets for the purpose of determining the funding percentage.

WCB Consideration 2: Determine if funding percentage range requires change

Consideration 7: Remove the second injury and disaster reserves and increase the funding range by 2%

The Saskatchewan Chamber of Commerce membership supports changes that simplify the WCB from an employer perspective. Establishing a funding range, which is often termed as the WCB being 'fully funded', and then establishing side reserves such as the second injury and disaster reserves creates an unnecessary complication for stakeholder and can lead to the perception of the WCB stockpiling employer monies beyond the amount they are entitled to under the funding range limit. The Saskatchewan Chamber of Commerce supports removing the second injury and disaster reserves and increasing the funding range by 2%. The organization also encourages the WCB to use its ability to create additional reserves sparingly. We believe transparency continues to be a vital component for the WCB and would support the WCB undertaking communications to the business community to outline what costs are and are not included within the funding range.

As noted under Consideration 1, the Saskatchewan Chamber of Commerce does not support the move to a fair market value for the purposes of determining the WCB funded position, as such the WCB will not need to correct for the market volatile as other Canadian jurisdictions have done by expanding the funding percentage range. The Saskatchewan Chamber supports expanding the funding range 2% to account for the removal of the second injury and disaster reserves but believes 107% to 122% is the appropriate range.

WCB Consideration 3: Evaluate the length of the time period to pay out excess funded position as a surplus distribution

The Saskatchewan Chamber of Commerce agrees with the Asset Liability Study suggestion that surplus payout in a period up to 5 years is too long. Our membership knows the time value of money. Promptly distributing surplus revenue to the entrepreneurs and investors that grow Saskatchewan generates returns of its own, perhaps through improved safety programs, or growing payrolls. The provincial Chamber recognizes that generating the cash flow necessary to fund surplus distribution might result in some losses on investments for the WCB, however our organization believes the business activity sparked by surplus distribution adequately offsets any investment losses on a broader scale. Further to this, having a pay out period over 5 years could potentially create complications as businesses close, merge, or substantially change in other ways which makes tracking for the payout amount difficult.

The Saskatchewan Chamber of Commerce strongly supported the WCB's decision to pay out the 2015 surplus distribution over the course of one year. This prompt and significant surplus distribution clearly illustrated the WCB's ability to get surplus revenue back into the hands of employers quickly. As such, the Saskatchewan Chamber of Commerce recommends that the WCB target a one-year window for surplus distribution in the future, however; we also acknowledge that unique and challenging situations

may occur which require leeway. Therefore, we believe a provision should be included with allows for a two-year distribution window if the WCB can show reasonable cause.

WCB Consideration 4: Shorten the 5-year time period to rectify a situation where the Board is below the lower funding limit

Unlike an accelerated surplus distribution there is no economic benefit to offset a quick recovery of premiums in situations where the WCB is below the lower funding percentage limit. Therefore, additional WCB charges are solely a drag on a business' resources which can have numerous repercussions. Nevertheless, it is important that future employers do not become liable for today's WCB claims and that benefits are secure for recipients. Based on these two considerations the Saskatchewan Chamber of Commerce believe that shortening the time period over which the funding shortfall is addressed is reasonable. However, the timeframe implemented can not be too short as the stability of premium amounts continues to be of paramount concern for employers and addressing any funding shortfall needs to consider this.

The Saskatchewan Chamber of Commerce believes instituting a 3-year time period to rectify a situation where the Board is below the lower funding limit appropriately balances the need for stability in premium rates with the need to ensure security of benefits and proper cost allocation.

WCB Consideration 5: Used a defined formula to determine the amount of excess surplus distribute in any given year

As outlined in Consideration 3, the Saskatchewan Chamber of Commerce recommends the WCB adopt a funding policy that targets the 100% payout of all excess surplus over the course of a single year, with extension (up to an addition year) by exception only. The Saskatchewan Chamber continues to support surplus distribution on a proportionate basis, as the WCB has successfully done in the past. We also continue to support the imposition of only two conditions upon employers in order to qualify for a rebate in a surplus distribution scenario; firstly, employers have to have an active account at the time the rebate was calculated, and secondly, claims costs have to be lower than premiums for the three calendar years prior to calculation.

WCB Consideration 6: Maintain the 2% cushion on either side of the funding range

The Saskatchewan Chamber of Commerce supports maintaining the 2% cushion on either side of the funding range. We agree that the WCB should maximize the use of its resources. Undertaking significant administrative activities, such as a surplus distribution or a special levy, to correct for insignificantly low value alterations, that could be addressed through other tools, is a misuse of these resources and could potentially add more costs to the system. The 2% cushion continues to be reasonable from our organization's perspective.

Nevertheless, the Chamber also recognizes the incredible motivation this year's rebate distribution offered the business community towards workplace safety. We believe there is an opportunity for the WCB to blend even a miniscule surplus distribution with appropriate messaging to reignite this positive performance. If the WCB were to undertake such an initiative, we would support the distribution of a surplus amount below the 2% cushion.

WCB Consideration 7: Remove the second injury and disaster reserves and increase the funding range by 2%

See Consideration 2

WCB Consideration 8: The calculation of the funding percentage should also include the obligation to pay annuities for injured workers.

Omitting the obligation to pay annuities for injured workers from the funding percentage hinders the ability of stakeholders to grasp a true understanding of the WCB's financial position. The obligation to pay annuities is a liability the employer community holds, as such it should be treated like the other claim liabilities and included as part of the funding percentage. The Saskatchewan Chamber understands that this will out downward pressure on this year's funded position, however now seems to be the appropriate time to make this adjustment as the funded position continues to operate close to the upper range of the limit.

International Financial Reporting Standards 17 Reserve

While not specifically outlined as one of the considerations in the discussion paper. The Saskatchewan Chamber of Commerce would like to restate its support for the establishment of a reserve to fund the upcoming change in accounting and actuarial standards. We believe this is the prudent course of action to untaken to ensure stability for premium rates in 2021. Nevertheless, upon the introduction of the new accounting and actuarial standards we expect the reserve to be fully terminated.

Conclusion

Thank you again for providing the Saskatchewan Chamber of Commerce with the opportunity to provide comment on the discussion paper regarding the WCB's funding policy. As always WCB premiums represent a considerable cost to businesses, however we recognize that by working together we can create a system which fairly treats benefit recipients while minimizing employer costs, maintaining premium stability, and improving clarity.

If you would like any additional information on any of the recommendations put forward in this paper, please to not hesitate to contact our office at 306-352-2671. We look forward to continuing to work with you.