WORKSAFE BC – REFUND OVERFUNDED SURPLUS TO EMPLOYERS

Opening Statement

On its smoothened accounting basis[1], the BC WorkSafe Board of Directors has set the target funding level of assets over liabilities at no less than 130 percent. As set out in the WorkSafeBC December 2020 Annual Report, this indicator was 153 percent (2019: 152 percent). The current policy lacks an upper limit rule.

The WorkSafeBC overfunding amount was $1.2 Billion at December 2016. It rose to $4.2 Billion at December 2020.

This large overfunding position should be reduced by returning through a material reduction in annual employer assessment rates, or a direct refund to employers, or a combination of the two alternatives over the next few years.

Background

WorkSafe BC is a provincial agency entirely funded through mandatory employer premiums and investment earnings.

The insurance fund was established to financially support workers' recovery from injury and restore them to safe and productive employment and/or access to equitable compensation. The employers provide the funding based on a fee levied on their payroll. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

According to the 2020 Association of Worker's Compensation Boards of Canada (AWCBC) Report – KSM Statistics, the WorkSafe BC 2020 funding ratio is approximately 161 percent of assets over liabilities.[2] In 2017, this excess of assets over liabilities was 153%. It should be noted that the AWCBC calculation is different from the WorkSafeBC calculation. The AWCBC method is done consistently to compare results to the other eleven WCBs across Canada. Other than PEI WCB in 2017 and Manitoba WCB and PEI WCB in 2016, WorkSafeBC has had the largest percentage ratio of assets over liabilities over the five years – 2016 to 2020.

Funding ratio % - WorkSafeBC Report

2016	2017	2018	2019	2020
137	147	155	152	163

The majority of the 12 other provincial/territorial boards in Canada have rebate policies in place triggering either, or a combination of, a reduction in annual assessment rates or direct refunds to employers when a certain threshold in funding is reached.

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[1] Income smoothing is the act of using accounting methods to level out fluctuations in net income from different reporting periods. The process of income smoothing involves moving revenues and expenses from one accounting period to another.

[2] 2020, Financial Measures http://awcbc.org/?page_id=9759

Saskatchewan's WCB has a targeted range between 105% and 120%. When the range is above 122%, the Board of Directors, at its discretion, will distribute surplus funds to employers in the year following the fiscal year.

For the past six years, PEI's WCB, with annual premium revenue of $34 Million, has experienced a funding ratio of over 140%. During the six years leading to 2020, their Board of Directors approved rate reductions amounting to $8.7 Million and direct distribution to employers of $76 Million.

In 2019, Manitoba's WCB, with annual revenues of $240 Million, has a targeted funding ratio of 131%. The 2019 surplus balance was 149%. Their Board of Directors approved a refund of $72 Million in 2019 and a program to refund another $181 Million between 2020 and 2024.

In 2019 and 2020, Alberta's WCB, with annual revenues of $1.1 Million, was hammered on its assessment income due to economic troubles but maintained a reasonable investment income in each year, where they ended up with operating surpluses in each year. Despite the province's economic difficulties, the ABWCB was able to stay within its funding ratio range established years ago between 115% and 128%.

In 2021, arising from 2020 recommendations from a Report, Ontario provincial government proposed to table legislation for its Workplace Safety and Insurance Board (WSIB)that would set a targeted range between 115% and 125%., and further prescribe parameters for surplus distribution to employers. On September 30, 2021, its 2021 Q3 funding ratio was 120%. On February 16, 2022, the WSIB announced that they will give back $1.5B in surplus premiums to the safe employers who paid them[3].

WorkSafeBC has proven to be a well-managed agency, with solid satisfaction expressed by injured employees and employers. Years ago, this was not the case.

From WorkSafeBC audited Financial Statements the following is a summary of the financial result for the five years 2016 to 2020:

	5 Years 2016 to 2020 ($Billions)
Premium Revenues	$ 7.8
Investment Income	7.3
	15.1
Claim Costs	8.5
All other Costs	2.9
	11.4
Total Annual Surpluses	$ 3.7

[3] https://www.cfib-fcei.ca/en/media/news-releases/cfib-statement-return-15b-wsib-overpayments-employers

According to the Business Council of British Columbia WorkSafeBC Management has overseen a decade of declining accident rates.[4] As set out in its statement, the reduction partly reflects the provinces shifting industrial base, but it's also evidence that WorkSafeBC prevention and safety programs have been effective in reducing injuries. It has improved its service delivery over the years and provides reasonable benefits to most injured workers in a timely manner.

The British Columbia Investment Management Corporation manages the WorkSafeBC investment portfolio. The year-end portfolio balances were:

- December 2020 - $ 21.0 Billion
- December 2016 - $16.0 Billion
- December 2011 - $11.9 Billion
- Ten-year change - $9.1 Billion

Between December 2016 and December 2020, the WorkSafeBC Claim Liabilities grew by $2.0 Billion to $13.0 Billion from $11.4 Billion. In 2011 its claim liabilities were $9.6 Billion. The ten-year liabilities change was $3.4 Billion.

In August 2020, legislative changes came into effect that will increase the long-term liabilities ("LTD") in the future. No doubt, the Board of Directors and Management will carefully consider the impact of these legislative changes as part of any revision to its current open-ended funding ratio policy. Note: in December 2020, the LTD claim liabilities were $7.3 Billion (56%) of the total claim liabilities of $13 Billion.

WorkSafeBC Board of Directors and management have a responsibility to the employers to revise its current funding ratio policy. What is required is an upper limit value. WorkSafeBC should determine a funding ratio program that continues to insulate the system from premium fluctuations, changes in claim benefit programs and changes in the economic climate while continuing to ensure sound management of its finances. Once a new funding ratio limit is set, a rebate policy should be included in the policy that allows the Board of Directors, at its discretion, to make direct payments to employers when that ratio limit is exceeded.

If WorkSafeBC Board of Directors, with support by the Provincial Government, had earlier set a very conservative Maximum Targeted Ratio of 130% - the following table sets out the overfunding position of its assets against its liabilities at the five December fiscal year ends. The table below also sets out the annual premium revenues for the year and compares the excess funding amount against the annual premium revenues for the fiscal year – representing the number of years the 'excess amount' is to the annual premium revenues.

[4] https://biv.com/article/2021/10/worksafebc-overhaul-could-have-huge-employer-cost-implications

Excess Funding Over the Maximum Target of 130% ($Billions)

Year	2016	2017	2018	2019	2020
Excess Funding over 130%	1.2	3.1	2.4	3.1	4.2
Annual Premium Revenues	1.5	1.5	1.6	1.7	1.6
Excess Compared to Premium Income	0.8	2.0	1.5	1.9	2.6

The WorkSafeBC Board of Directors and Management is best positioned to determine what an updated, reasoned Funding Ratio or Funding Ratio Range program should be.

If due to the recognition of its large excess of Funds, WorkSafeBC made direct payments to employers, these funds could put to productive use, including investing in new and safer equipment, growing their business, and creating jobs.

THE CHAMBER RECOMMENDS

That the Provincial Government work with the WorkSafeBC Board of Directors to:

1. Create a reasonable Funded Ratio or Funded Ratio Target Range, and;
2. Create a policy that triggers automatic reductions in annual assessment rates and, where appropriate, make direct payments to employers when WorkSafeBC surplus exceeds a policy range limit.

Submitted by Surrey Board of Trade