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COMPENSATION WATCH

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Employer premiums likely to go up with WSIB funding review

Review looks at the compensation board's long-term financial stability

In response to the 2009 Annual Report of the Auditor General of Ontario, the Workplace Safety and Insurance Board (WSIB) has announced a funding review to ensure the long-term financial stability of the WSIB.

The funding review was approved by the Ontario Government at the request of the WSIB board of directors and will be chaired by Professor Harry Arthurs, former Dean of Osgoode Hall Law School and president emeritus of York University. An advisory committee will assist the chair in gathering information and advice from all relevant stakeholders through a series of policy consultations regarding the WSIB's long-term survival and in particular the eradication of the unfunded liability or future debt, which currently sits at more than \$12 billion.

The unfunded liability represents the difference between the total cost of all existing claims in the system and funds available to pay for them. According to the WSIB, the unfunded liability has risen in recent years as a result of insufficient premium revenue, increasing claim costs, and in particular, health-care

costs and low returns on investments as a result of the recession.

The province's long-term objective is to pass legislation requiring the WSIB to be fully funded. Six Canadian jurisdictions, including Alberta and British Columbia, already have fully funded models of compensation in place.

However, to alleviate the strain on the system in the short-term, and in addition to implementing numerous administrative and operational changes, the average premium rate will increase by two per cent for the years 2011 and 2012. This means the average premium rate in 2012 will rise to \$2.40 for every \$100 of insurable earnings.

As the increase will apply to the average premium rate, employers in high-risk industries or those with poor safety records will likely see their rates rise by more than two per cent.

David Marshall, president and CEO of the WSIB, has accepted some responsibility for the unfunded liability. In particular, he has stated that the board believed

that an increase in claims costs could be managed through increased returns on investments. The mistake lay in the assumption that the two figures would always coincide. While the costs of benefits may be predictable, returns on investments have proven to be anything but.

Marshall has further acknowledged the negative impact of governmental influence on the board and has stated that “as managers of the WSIB, we have to take control of our agenda”.

Marshall also questioned the responsibility of employers in the creation of this deficit in stating that the unfunded liability is money owed by employers to workers because of their failure to set extra funds aside, while enjoying lower premium rates for several years.

In fairness, however, the blame perhaps lies with the board itself. The question that must be asked is, ‘What is wrong with the Ontario system?’. It has some of the highest premium rates in the country and still maintains the highest deficit. Further, it is the board that sets the premiums, not employers. So if it is indeed low

premium rates that have resulted in the current deficit, then the blame lies squarely on the shoulders of the WSIB.

It should also be noted that the \$12 billion unfunded liability represents the projected cost of all claims in the system – both minor and critical – if they had to be paid out until the age of 65. Thus, the \$12 billion is an artificial figure since the likelihood of the WSIB having to pay out all claims or to the age of 65 is extremely low.

In the present, the WSIB is fully funded to operate as status quo. Nonetheless, among other initiatives, employers should expect a premium increase in the short-term to assist the board in trying to pay off its financial shortfall, real or artificial.

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