Client Services Policy Manual

Policy Number:	**IF-01**
Subject:	**Long Term Financial Strategy**
Chapter:	**Injury Fund and Reserves**

Background

Before 2004, WorkplaceNL accounted for its investments using a method that smoothed the year-to-year fluctuations in market value. Beginning in 2004, WorkplaceNL began accounting for its investments at fair market value as required by changes in Canadian Generally Accepted Accounting Principles made in that year. This change causes the funded ratio to fluctuate from year to year much more than it did before 2004. For example, if the new accounting standards had been in place in 1999 and WorkplaceNL had a 100% funded ratio at the time, the funded ratio would likely have fallen to less than 75% by the end of 2002 due to negative investment returns.

Because of the large potential changes in funded ratio, it is important that WorkplaceNL have a policy that provides guidance on when and how to react to changes in the funded ratio. This should allow WorkplaceNL to maintain a more stable funded ratio than would otherwise be the case. It should also prevent any over-reaction to temporary fluctuations in the market value of assets that might result in even greater instability of the funded ratio.

Policy Objective

The objective of WorkplaceNL's long term financial strategy is to maintain a funded position that will provide for the security of benefits promised to injured workers within employers' reasonable ability to pay. The strategy is intended to provide a mechanism for WorkplaceNL to respond to external influences, such as volatile investment market performance and general economic factors, in a controlled and responsible manner.

Policy Statement

WorkplaceNL will strive to maintain a funded ratio that is normally between 100% and 120%. Whenever the funded ratio at year-end is outside of this range, corrective action will be taken as specified in this policy to bring the funded position back into the range.

Assessment rates for each year will be established at a level which, along with other revenue sources, will generate sufficient revenue to cover the anticipated cost of new injuries in the year, subject to any adjustment to the level of assessments required to achieve the funding target described in this policy.

The adoption of this policy does not supersede WorkplaceNL's responsibility to administer the Act. WorkplaceNL is not precluded

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from considering benefits and other expenditures in advance of reaching its funding targets. In order to ensure the long-term sustainability of the workers compensation system, however, the current and future costs of these expenditures must be considered in setting employer assessment rates.

Required Actions

Actions required by this policy are as follows:

1. If the funded ratio is less than 100%, assessment rates for the following year will be increased by a percentage that is calculated to allow the funded ratio to return to 110% over a 15-year period.

2. If the funded ratio is greater than 120% but less than or equal to 140%, assessment rates for the following year will be reduced by a percentage that is calculated to allow the funded ratio to return to 110% over a 15-year period.

3. If the funded ratio is greater than 140%, the amount of the excess funds up to the 140% level will be treated as described in item 2 above. The amount of the excess funds above the 140% level will be divided into two equal portions and utilized as follows:
   a. One portion will be used to finance “one-time expenditures” as described in the definitions section of this policy, and;
   b. The other portion will be used to further reduce assessment rates for the following year by a percentage that is calculated to eliminate the excess funds over a 15-year period.

Guidelines

The required actions under this policy are subject to the following over-riding guidelines:

1. If the calculated adjustment to assessment rates is less than 5%, no adjustment will be implemented.

2. Once an adjustment to assessment rates has been implemented, that adjustment will not be reduced until the funded ratio reaches 110%.

3. When WorkplaceNL sets its assessment rates each year (usually by October), WorkplaceNL will consider whether or not the funded ratio may have changed significantly since the previous year-end. WorkplaceNL may choose to take into account in the calculations described in this policy the estimated impact of any significant changes in the funded ratio.

4. In all cases, WorkplaceNL must take into account both the current and projected future costs of any “one-time expenditure”.

Definitions

1. Funded Ratio

The funded ratio of WorkplaceNL is calculated by dividing the total assets of WorkplaceNL by its total liabilities and reserves.

2. One Time Expenditure

For the purpose of this policy, “one-time expenditures” may include, but are not limited to one or a combination of the following:

a. Benefit improvements to injured workers,
b. A provision for benefits improvements to be considered at the next statutory review,
c. Assessment rebates,
d. Funding for prevention or other programs,
e. The cost of implementing a more conservative investment policy.

3. Cost of New Injuries

The cost of new injuries includes:

a. Both the current and future benefit costs associated with new injuries occurring during the year,
b. The administrative costs of operating WorkplaceNL, the Workplace Health, Safety & Compensation Review Division, the Occupational Health & Safety Branch of the Department of Government Services, and Employer/Worker Advisors,
c. The annual amortization of capital expenditures of WorkplaceNL.

Starting Adjustment

When assessment rates were established for 2008 and 2009, they contained an upward adjustment of $ 0.25 per $ 100 of payroll which is equivalent to a 10% adjustment. In accordance with the guidelines in this policy, this adjustment will be retained until the funded ratio reaches 110%.

Reference: *Workplace Health, Safety and Compensation Act, (the Act) Sections 97 and 108.*

Amendment History

Original Effective Date 2009 01 01