RESEARCH SNAPSHOT

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Funding Fairness: State of Workers' Compensation Funding in 2024

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Introduction

Small businesses are constantly searching for ways to enhance efficiency, improve profitability, support their employees, and positively impact their communities. However, the current economic conditions have made it increasingly difficult as many are struggling with a multitude of challenges, including soaring operating expenses, persistent labour shortages, and declining consumer spending. Small businesses report that tax and regulatory costs (70%), wage costs (70%), and insurance costs (68%) are the top cost constraints causing difficulties for their operations.[1] These costs have continued to rise well above historical averages, narrowing small businesses' already thin margins.

At the same time, several provincial/territorial workers' compensation boards/commissions (hereinafter referred to as "boards") are in an overfunded position, meaning boards have exceeded their desired funding target. Compared to last year's report[2], five of the same boards remain in a surplus position this year. Additionally, Ontario's board has joined them, increasing the total number of provinces in a

Key Takeaways

- The latest data shows **six boards are overfunded**, five of which were also overfunded last year.
- If all six overfunded boards provided rebates, **small businesses would receive a $4.9 billion boost**.
- **Nine out of twelve boards have a policy to return funds to employers.**
- Only the Ontario government has legislated **mandatory rebates under set targets**.
- **Manitoba returned $118 million of surplus funds in 2024, Prince Edward Island $21 million in 2023, and Ontario $1.2 billion in 2022.**

[1] CFIB, Monthly Business Barometer – July 2024 survey, July 3-15, 2024, total responses = 467.

[2] CFIB, Funding Fairness: State of Workers' Compensation Funding. July 2023.

surplus position to six — resulting in half of Canada's workers' compensation boards being overfunded.

Boards are entirely funded through employer-paid premiums and investment earnings. Given that 71% of employers identify payroll taxes, including workers' compensation premiums, as the most harmful type of tax to their business[3], it is only fair that any surplus amounts collected are directly returned to employers.

Boards have differing approaches on how they redistribute surpluses back to small businesses; some reduce premiums, while others provide rebates. Only the Ontario government has legislated mandatory rebates under set targets. If all six overfunded boards provided direct rebates, it would result in a $4.9 billion boost for Canadian small businesses. Returning excess funds to businesses could be a game changer, allowing them to offset the elevated costs of doing business, pay down debt, invest in health and safety in the workplace, reinvest in their employees, and expand their operations.

This snapshot will provide an overview of the latest funding levels of provincial/territorial boards and highlight the potential benefits that direct rebates would provide to small businesses across Canada.

Funding Positions

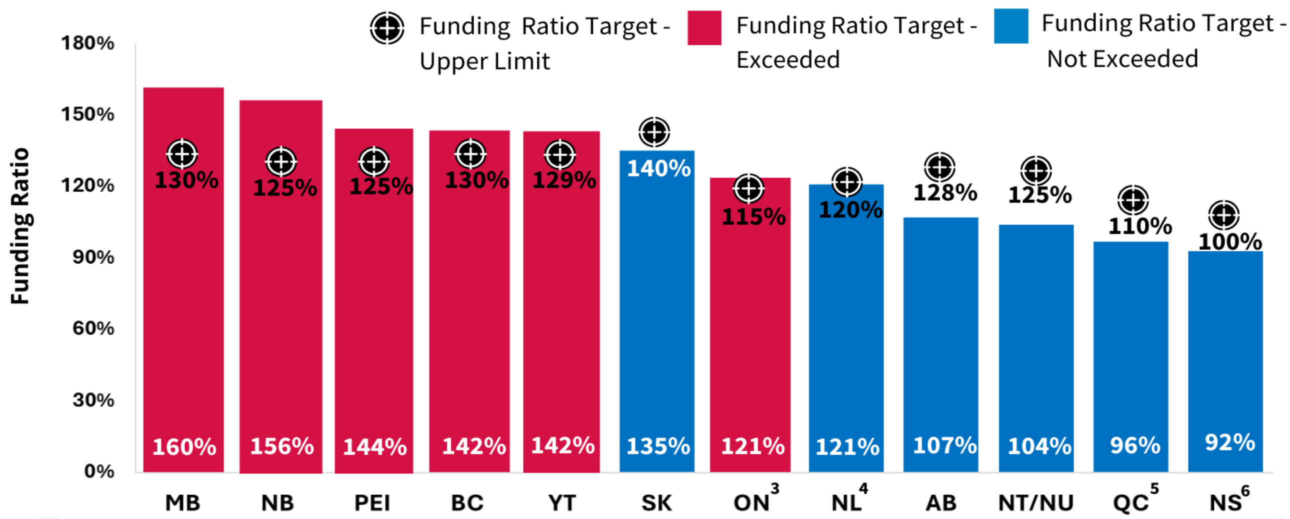
Boards determine a target funding position/ratio by establishing a threshold in relation to their total assets (investments, property, cash, and cash equivalents) compared to their total liabilities (benefit liabilities, employee benefits, and long-term debt). Target ratios are often set to either 100% or higher, or a range above 100%. Funds above 100% are meant to provide a buffer to cover unforeseen events and to account for market swings. If a board's financial position exceeds its target funding goal, it means there is a surplus. This implies the board has more funds than required to cover its expenses, including unforeseen costs. For an overfunded board, the surplus amount is the difference between the fund balance (assets minus liabilities) and its target. The latest data indicates that six boards are in an overfunded position — British Columbia, Manitoba, Ontario, New Brunswick, Prince Edward Island, and the Yukon (see Figure 1). This is consistent with last year's report, when five of these six boards were in overfunded positions.[4] The only board that is overfunded this year, and was not last year, is Ontario.

[3] CFIB, Your Voice – June 2024 survey, June 4-19, 2024, total responses = 2,035.

[4] CFIB, Funding Fairness: State of Workers' Compensation Funding. July 2023.

Figure 1: **According to the latest available data, six boards are in an overfunded position**

Latest[1] Funding Position[2] of Workers' Compensation Boards



	MB	NB	PEI	BC	YT	SK	ON[3]	NL[4]	AB	NT/NU	QC[5]	NS[6]
Funding Ratio Target %	130	115-125	100-125	130	121-129	100-140	110-120	100-120	114-128	125	110	100

Source: Workers' Compensation Boards.

Notes:

1. Q1 2024 funding ratio: ON. 2023 Funding ratio: YT, BC, AB, SK, MB, QC, NB, PEI, NL. 2022 Funding ratio: NT/NU, NS.
2. Funding ratio is based on total assets to total liabilities, except for BC (smoothed accounting basis), SK and ON (sufficiency basis).
3. Based on the first quarter 2024 sufficiency ratio, Ontario's funding level is 121.5%. If the sufficiency ratio is equal to or greater than 115% and less than 125%, the board may distribute any amount in excess. If the funding level is 125% or higher, the board must distribute any amount in excess.
4. Funding policy specifies a funding target operating range from 100% to 120%, with a target of 110%. While the board can be considered overfunded based on the funding target, minor fluctuations may not immediately require corrective actions.
5. Quebec reported a funding ratio of 120%. As we do not have the details of the calculation for this ratio, CFIB reports on the total assets to total liabilities, which explains the difference between the CFIB rate and the one calculated by the board.
6. Due to ambiguity in the current funding policy, the 100% funding ratio target is being used to indicate the board's commitment to focus on long-term financial stability and sustainability.

Managing Overfunded Positions — Surplus Distribution Policies

Funding surpluses can be the result of several factors, including efficient health and safety practices, successful return-to-work outcomes, sound financial management, and/or favourable returns on investments. Overfunded boards can return surplus funds or lower premiums to bring their funding positions back in line with their targets.

British Columbia, Quebec, and Nova Scotia have the only boards in Canada without a policy to return surplus funds to employers (see Table 1). The funding ratio at which rebates are provided differs from board to board. Prince Edward Island and Newfoundland and Labrador have the highest thresholds for discretionary rebates (above 140%), while Ontario (at least 115%) has the lowest thresholds.

In Quebec, there is a capitalization policy in place to regulate the management of accumulated surpluses and deficits. The objective of this policy is to establish mechanisms to amortize the accumulated surpluses and deficits, which helps determine the premium rates for businesses.

Ontario remains the only province to legislate the return of surplus funds, which is at the board's discretion when the funding level is at least 115% and mandatory when the funding level is at least 125%.[5] CFIB continues to encourage other boards to follow this example.

Table 1

Nine of the 12 boards have a policy to return surplus funds to employers

Surplus Distribution Policies, Workers' Compensation Boards, by Jurisdiction

	YT	NT/NU[2]	BC[3]	AB	SK	MB	ON[4]	QC[5]	NB[6]	NS[7]	PEI[8]	NL[9]
Rebate Policy exists — Yes/No	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes
Funding ratio for rebate %[1]	Above 129%	Above 135%	N/A	Above 128%	Above 122%	Above 130%	At least 115%	N/A	Above 125%	N/A	Above 140%	Above 140%

Source: Workers' compensation boards.

Notes:

1. Boards that provide rebates use their own discretion in deciding whether to issue a rebate and its amount, except for Ontario, where discretionary and mandatory rebates are triggered by legislation, and where the board may determine rebate amounts for discretionary rebates, but may only determine rebate amounts for mandatory rebates if the amount is not prescribed by regulation.
2. Discretionary rebate if funded ratio exceeds 135% for two successive years.
3. Excess funds are used to discount premium rates.
4. Discretionary rebate if funding level is equal to or above 115%, mandatory rebate if funding level is at least 125%.
5. Excess funds are used to discount premium rates.
6. When the funding level exceeds 125%, a credit shall be issued to employers.
7. Excess funds are used to discount premium rates.
8. If funding level is between 125% and 140%, the board will adjust annual revenue requirements, based on assessment rate adjustments.
9. Premium rate reduction if funding level is greater than 120%, but less than 140%. If the funding level is greater than 140%, the amount of the excess funds can be used to finance a one-time expenditure that can take the form of an assessment rebate.

Potential Rebates for 2024

At a time when small businesses face rising costs in almost every area, returning surplus funds would deliver significant financial relief.[6]

Table 2 shows that if overfunded boards were to return all funds accumulated beyond the upper limit of their target ratio, the total potential rebate to employers would translate to $4.9 billion across Canada. At a provincial level, the highest rebate would occur in Ontario ($2.1 billion). However, significant rebates would also occur in British Columbia ($2 billion), New Brunswick ($396 million), Manitoba ($381 million), Prince Edward Island ($32 million), and the Yukon ($24 million).

[5] Legislative Assembly of Ontario, Bill 27, Working for Workers Act, 2021. Accessed: July 30, 2024. https://www.ontario.ca/laws/statute/s21035

[6] CFIB, MBB – June 2024 survey, June 4-14, 2024, total responses = 662.

Table 2

Rebating surplus funds to employers would translate to $4.9 billion

Potential Total Rebate for 2024, Overfunded Boards Only, by Jurisdiction[1]

	Funding ratio — %[2]	Difference between total assets and total liabilities — $ million[3]	Upper limit of funding ratio %	Potential total rebate at upper limit of funding ratio — $ million[5]
YT	142%	$83	Above 129%	$24
BC	142%	$7,168	Above 130%	$2,041
MB	160%	$781	Above 130%	$381
ON[4]	121%	$7,140	At or above 115%	$2,106
NB	156%	$738	Above 125%	$396
PEI	144%	$67	Above 125%	$32
CAN	**143%**	**$16,138**	**N/A**	**$4,989**

Sources and notes:

1. Only boards with funding positions that are beyond the upper limit of their funding target (i.e., overfunded) are included.
2. Ratio of total assets over total liabilities.
3. CFIB calculation, may not sum to total due to rounding.
4. Based on the first quarter 2024 sufficiency (i.e., funding) ratio, Ontario's funding level is 121.5%. Due to the lack of specific assets and liabilities data for this period, CFIB used the funding ratio and the net assets ($7.1 billion) to estimate the potential rebate at upper limit of funding ratio. In this situation, the term 'upper limit' represents the threshold at which surplus distributions may be considered.
5. The figures provided are rounded, and therefore, the sum of these individual figures may not equal the displayed total.

Potential Rebates Per Employee

A breakdown of potential rebates per employee shows that the highest rebates for a business with one employee would take place in New Brunswick ($1,072), with significant rebates also possible in the Yukon ($872), British Columbia ($762), Manitoba ($711), Prince Edward Island ($358), and Ontario ($349) — see Table 3. For a business with five employees, the potential rebates could be significantly more — New Brunswick ($5,360), the Yukon ($4,360), British Columbia ($3,810), Manitoba ($3,555), Prince Edward Island ($1,790), and Ontario ($1,745). It is important to note that surplus rebates would not be limited to the private sector, but could include public sector employers subject to workers' compensation.

Table 3

New Brunswick, the Yukon and British Columbia have the highest potential rebate per employee

Potential Rebates to Employers for 2024, Overfunded Boards Only, by Jurisdiction[1]

	Potential rebate for an employer with one employee[2]	Potential rebate for an employer with five employees[3]
YT	$872	$4,360
BC	$762	$3,810
MB	$711	$3,555
ON	$349	$1,745
NB	$1,072	$5,360
PEI	$358	$1,790
CAN	$4,124	$20,620

Source: Workers' compensation boards.

Notes:

1. Only boards with funding positions that are beyond the upper limit of their target funding (i.e., overfunded) are included.
2. CFIB calculation based on covered workers. Amount shown is an average, and assumes all premiums are equal. Actual rebate will depend on industry classification of employees, among other criteria.
3. For illustration purposes. A typical small business has five employees.

Follow the Lead: Setting the Precedent for Employer Rebates

In recent years, boards have distributed surplus funds to employers, with Manitoba returning $118 million in 2024, Prince Edward Island $21 million in 2023, and Ontario $1.2 billion in 2022.[7,8,9] Looking forward, Manitoba anticipates rebates to employers through 2026 with the goal of reducing their funding ratio to the funding target of 130%. Prince Edward Island has yet to announce a rebate in 2024 despite exceeding their target of 125% in 2023. CFIB encourages the boards that are presently overfunded to follow the path of employer rebates. The most effective way to ensure these rebates are delivered would be to follow Ontario's example by legislating mandatory rebates when funding levels exceed board targets, ensuring a transparent and straightforward process.

Surplus Rebates Preferred Over Premium Reductions

Unfortunately, not all boards have funding policies that allow direct rebates when returning surpluses to employers. Policies in British Columbia, Quebec and Nova Scotia dictate that these boards may only use surplus amounts to reduce premiums. Small businesses would far rather have their funds returned through rebates, allowing them to immediately direct those funds back to their business through investments, paying down debt, investing in health and safety in the workplace, attracting labour, and creating jobs, among other initiatives. Direct rebates would have an immediate positive impact at a time when many businesses need them most.

Of the overfunded boards that use surplus funds to solely reduce premiums, British Columbia — one of the boards with the highest funding ratio — has not reduced premium rates the past seven years, highlighting the limitations of their funding policy.

[7] WCB Distributes $118 Million in Surplus Funds to Manitoba Employers. Workers Compensation Board of Manitoba. Accessed: July 30, 2024. https://www.wcb.mb.ca/wcb-distributes-118-million-in-surplus-funds-to-manitoba-employers

[8] Workers Compensation Board of PEI announces 2024 rates and surplus distribution to employers. Workers Compensation Board of PEI. Accessed: July 9, 2024. https://www.wcb.pe.ca/Information/NewsItem/805

[9] WSIB surplus rebate for businesses. Workplace Safety and Insurance Board of Ontario. Accessed: August 23, 2024. https://www.wsib.ca/en/rebate

Conclusion and Recommendations

For the benefit of both employers and employees, it is critical that workers’ compensation insurance operates effectively and with reasonable costs. Boards must ensure a balanced and fair approach to overfunding. Rather than accumulating and sitting on large surpluses, boards should return these funds to the eligible businesses that paid them and could put them to much better use. CFIB suggests the following recommendations for workers' compensation boards across the country:

Recommendations

- **Return surplus funds** to employers or lower employer premiums where the funding ratio exceeds the board’s funding target, with a stronger preference for a rebate to eligible employers.
- **Legislate the return of WCB surplus funds to eligible employers**.
- Implement **mandatory distribution policies**, so surplus funds are returned on a regular basis.
- Enhance WCB transparency and accessibility by **setting dates to publicly release board funding levels**.

About CFIB

CFIB is a non-partisan organization exclusively representing the interests of 97,000 small- and medium-sized businesses in all sectors across Canada. CFIB’s research capacity is second-to-none because we are able to gather timely and relevant information from members about business issues that affect their day-to-day operation and bottom line. In this capacity, CFIB is an excellent source of up-to-date information for governments to consider when developing policies impacting Canada’s small business community. To learn more, visit cfib.ca.

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