Agenda – Executive Policy Committee – April 22, 2015

REPORTS

Item No. 6 Amendment to the Purpose of the Workers Compensation Reserve Fund – Changes introduced by the Workers Compensation Board

WINNIPEG PUBLIC SERVICE RECOMMENDATION:

1) That effective January 1, 2015 Council amend the stated purpose of the Workers Compensation Reserve Fund to add the following consistent with Appendix A:

   a) the receipt of accumulated pension surpluses from the Workers Compensation Board ("WCB") as well as the payment of future WCB pension deficits; and

   b) the payment of costs associated with future Permanent Partial Impairment ("PPI") awards provided by the WCB to workers deemed to be terminal by reason of their employment with the City of Winnipeg.

ADMINISTRATIVE REPORT

Title: **Amendment to the Purpose of the Workers Compensation Reserve Fund to Reflect Changes Introduced by the Workers Compensation Board**

Critical Path: **Executive Policy Committee - Council**

AUTHORIZATION

Author	Department Head	CFO	CAO
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RECOMMENDATIONS

1) That effective January 1, 2015 Council amend the stated purpose of the Workers Compensation Reserve Fund to add the following consistent with Appendix A:

   a) the receipt of accumulated pension surpluses from the Workers Compensation Board ("WCB") as well as the payment of future WCB pension deficits; and
   b) the payment of costs associated with future Permanent Partial Impairment ("PPI") awards provided by the WCB to workers deemed to be terminal by reason of their employment with the City of Winnipeg.

REASON FOR THE REPORT

Council approval is required to amend the purpose of the Workers Compensation Reserve Fund.

IMPLICATIONS OF THE RECOMMENDATIONS

On November 19, 2008, City Council approved the purpose of the Workers Compensation Reserve Fund as follows:

> **"The purpose of the Workers Compensation Reserve Fund (The "Fund") is to pay all costs associated with workplace fatalities, the legislated cost of living adjustments to existing Workers Compensation Board pensions, costs associated with those Workers Compensation Board claims that pre-date the 1972 amalgamation of the City of Winnipeg, and those other uses directly related to the maintenance and integrity of the Fund."**

On an annual basis, the City will either receive further accumulated pension surpluses that are accrued during the year prior or, be required to pay pension deficits should such arise. Recommendation 1a) would enable the Workers Compensation Reserve Fund to receive any pension surplus payments from the WCB or pay any pension deficits that arise.

Recommendation 1b) would confirm that future PPI awards for workplace injuries deemed to be terminal, which includes those arising from occupational diseases, would also be paid from the Workers Compensation Reserve Fund. This is consistent with the stated purpose to "pay all costs associated with workplace fatalities."

If approved, the Purpose and Administration of the Workers Compensation Reserve Fund would be as described in Appendix A

HISTORY

This report is made necessary due to changes introduced by the WCB and which the City was notified of in 2014. Those changes are as follows:

a) The WCB made a decision to refund the accumulated pension surplus to all self-insured employers, which had been retained by the WCB for in excess of 20 years. In the case of the City of Winnipeg, the accumulated pension surplus amounted to $9,151,956. On a go-forward basis, the WCB will provide the City of Winnipeg with any accumulated pension surpluses on an annual basis or bill the City for any pension deficits, whichever is applicable.

b) In 2013 the WCB determined that, where workers had been deemed terminal by reason of their employment, they would be entitled to a 100% Permanent Partial Impairment award. A review of all claims dating back to 1992 was completed by the WCB in 2014 with a determination that 43 City of Winnipeg claims had further entitlements totaling $2,596,660. At the present time, the defined purpose of the Workers Compensation Reserve Fund does not allow for the assignment of these costs for terminally ill employees. Without approval of this recommendation, the individual department budgets would have to bear these costs which, on a case by case basis, can amount to as much as $125,000.

The WCB was established in Manitoba in 1917 with the City of Winnipeg receiving self-insured status as an employer in 1918. As a self-insured employer, the City of Winnipeg covers all costs associated with workers compensation and, in lieu of a payroll assessment, is charged a transaction fee for all financial transactions that occur on a workers compensation claim.

Permanent Partial Impairment Awards

In 2013, the City was advised by WCB that they were undertaking a comprehensive review of approximately 450 cases (43 being City cases) to ensure PPI awards had been properly determined. A PPI award is issued by the WCB in recognition of a permanent impairment that results from a workplace injury or occupational disease. Over the past few years, occupational diseases have become an emerging issue for workers compensation boards across Canada and is considered to be the precursor that triggered the WCB review.

As a result of this review, taking over one year to complete, it was determined that the City owed $2,596,660. For accounting purposes, charges such as these would be applied to departmental budgets. However, departments do not budget for these amounts.

Workers Compensation Pension Surplus

Pension benefits are immediately funded when a permanent impairment or fatality is determined by the WCB. When this occurs, a pension capitalization lump sum amount is calculated and charged to the City. Payment of the capitalization amount is set aside in a separate WCB pension account and earns an annual return based on investments made by the WCB. On an annual basis, the WCB conducts an actuarial valuation of its pension liability, comparing it to the funds on hand. This valuation determines the extent of a pension surplus or deficit. Differences will arise through actuarial estimate to actual variances associated with investment returns and mortality experience.

Positive investment returns over the past 20 years have resulted in an accumulated pension surplus. Beginning in 2001, at the request of the City, the WCB began funding the bi-annual indexing of pensions out of the accumulated pension surplus. Prior to this, the City assigned these costs to the Workers Compensation Reserve Fund, consistent with its defined purpose.

When the City of Winnipeg was notified of the pending review of PPI claims dating back to 1992 as well as the estimated financial liability, a request was made of the WCB to offset these unexpected costs by using the accumulated pension surplus. The WCB undertook to review this request and, as a result, not only offset the costs associated with the claim file reviews, but also changed their historical practice of retaining the accumulated pension surplus. Like the City, it found many of its self-insured employers had accumulated pension surpluses.

As such, WCB utilized part of the pension surplus refund of $9,151,956 to pay for the PPI awards determined through the review, resulting in a net amount of $6,555,296. For 2014, the General Revenue Fund reported a small surplus of $724,000, in part due to this net refund.

FINANCIAL IMPACT

Financial Impact Statement **Date:** April 1, 2015

Project Name:

Amendment to the Purpose of the Workers Compensation Reserve Fund to Reflect Changes Introduced by the Workers Compensation Board

COMMENTS:

There is no financial impact arsiing from the recommendations. The recommendations are to the accounting for these specific transactions.

"Original Signed by"
Ramona Hodges
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

In preparing this report there was consultation with:

Legal Services Department

SUBMITTED BY

Department: Corporate Finance
Division: Risk Management
Prepared by: Craig Cormack and Paul Olafson
Date: April 1, 2015
File No. NA

The purpose of the Workers Compensation Reserve Fund (the "Fund") is to:

- pay all costs associated with workplace fatalities
- *pay all costs associated with Permanent Partial Impairment awards that are provided by the WCB to workers that are deemed to be terminal*
- pay the legislated cost of living adjustments to existing Workers Compensation Board pensions
- pay the costs associated with those Workers Compensation Board claims that predate the 1972 amalgamation of the City of Winnipeg
- those other uses directly related to the maintenance and integrity of the Fund

The Fund will also receive accumulated pension surpluses from the Workers Compensation Board ("WCB") as well as pay any future WCB pension deficits.

The Fund will be maintained by way of a surcharge assigned to each department, as well as the annual interest earned from the Fund balance. The amount of the surcharge levied upon the various departments of the City of Winnipeg will be subject to change from time to time depending on prevailing circumstances and/or experience. The setting of the surcharge rates and the implementation of any changes to those rates will be approved by the Corporate Controller or designate.

The Fund shall be managed by the Corporate Controller or designate.

NOTE: Underlined/italicized text reflects what's been amended as a result of Council approval of Recommendation 1 to this report.