

## **Restoring Full Cost of Living Adjustments: Facts and Figures**

Based on Statistics from the WSIB website: <http://www.wsib.on.ca>

### **Unfunded Liability**

The impact on the unfunded liability has been raised as a reason for not restoring full inflation adjustment. However, the WSIB is still far better off financially than it was in 1985 when the government introduced annual full cost of living adjustments to workers' compensation with all party consensus.

In 1985, the government legislated annual adjustments for injured workers equal to the increase in the cost of living. According to the Annual Report for 1984, at that time the WCB was 44% funded, meaning it had a reserve fund of 44% of the amount needed to cover all future payments.

The WCB has continued to collect more in premiums than it pays out each year. Despite the current recession, the WSIB is still about 54% funded, according to its most recent financial reports.

The WSIB is well enough funded to commit to paying full cost of living adjustments to benefits permanently.

### **Full Cost of Living Adjustment Has No Cost to Employers**

Research done for the Ontario government in the early 1980's by Harvard Law Professor Paul Weiler noted that cost of living adjustments do not cost anything to employers. Employers pay a percentage of their payroll for workers' compensation coverage. When there is inflation, higher prices lead to higher wage demands. The size of an employer's payroll in dollars increases when wages increase in response to higher prices faced by the employees. As the size of the employer's payroll increases, so does the dollar amount collected by the WSIB without changing the percentage charged. This allows the WSIB to adjust injured workers' benefits for inflation without increasing the employers' assessment rates.

Prof. Weiler further observed that if the system is not adjusting benefits for inflation, then someone else is effectively making a windfall gain from this at the expense of the injured worker:

*Once we decide as a community what the appropriate level of compensation for injured workers is to be ... our refusal to keep the monetary amount of his pension in line with the changing rate of inflation must mean that someone else in the economy will receive a net increase in his share of real goods and services. In effect, someone will reap a windfall profit from inflation at the expense of the*

*disabled worker. In the case of workers' compensation benefits, the immediate beneficiary of such inaction would be business."*

Reshaping Workers' Compensation for Ontario, Paul C. Weiler, A report submitted to Robert G. Elgie, M.D., Minister of Labour, November, 1980

WSIB statistics show that Prof. Weiler was correct. It has been employers who gained from the cuts to inflation adjustment by way of a 25% reduction in premium rates and more than \$2 Billion in net rebates under the experience rating system.

### **Experience Rating: Off –Balance Rebates to Employers**

The WSIB expanded its "experience rating" program in which employers with relatively poor WSIB claims records are required to pay penalties and employers with relatively better WSIB claims rates receive rebates. The problem is that usually this program pays out more in rebates than it receives in penalties, taking the extra funds out of the money collected by the WSIB for injured workers. This is referred to by the WSIB as an "off-balance" or a "net refund." Last year, the WSIB paid to employers all of the penalty funds collected plus an additional \$118 Million out of the injured worker accident fund. Since the Workers' Compensation Board began reporting these numbers in 1993, the net refunds to employers (refunds paid in excess of penalties collected) under experience rating now exceeds \$2.5 Billion from 1993 to 2007.

<u>Year</u>	<u>Net Refunds to Employer (in \$ Millions)</u>
1993	295
1994	359
1995	247
1996	297
1997	350
1998	125
1999	90
2000	109
2001	4
2002	51
2003	169
2004	115
2005	124
2006	114
<u>2007</u>	<u>118</u>
Total	\$2.567 Billion

WSIB Chair Steve Mahoney recently estimated that the cost of restoring full adjustment for inflation to injured workers' benefits would be \$2.3 Billion (COCA Newsletter, March 2008). Coincidentally, that is roughly the amount paid out of the injured worker accident fund to employers in the experience rating program since the cuts to inflation adjustment began in 1994.

### **Average Employer Premiums Progressively Reduced**

Employers received an additional windfall benefit in the form of a 28.5% rollback in their cost for workers' compensation coverage over the past 16 years. Not coincidentally, employers' average assessments were \$2.17 in 1984, just before cost of living adjustments became 'the law' for injured workers. After cost of living adjustments were cut in 1994, employers' rates were quickly reduced by the WSIB from \$3.00 to \$2.13. Employers are getting a bargain paying 1984 prices while the workers who are injured are forced to live in poverty because their compensation is not adjusted for the impact of inflation.

Average assessment per \$100 of payroll:		change from year before
2008	\$2.26	-
2007	\$2.26	-
2006:	\$2.26	+3%
2005:	\$2.19	-
2004:	\$2.19	-
2003:	\$2.19	+3%
2002:	\$2.13	-
2001:	\$2.13	- 7 %
2000:	\$2.29	- 5.4%
1999:	\$2.42	- 6.6%
1998:	\$2.59	- 9.1%
1997:	\$2.85	- 5.0%
1996:	\$3.00	-
1995:	\$3.00	- 0.3%
1994:	\$3.01	- 2%
1993:	\$2.95	- 7%
1992:	\$3.16	

28.5 % reduction of employer premiums for  
workers' compensation coverage over the  
past 16 years

### **Average Injured Workers' Benefits Progressively Reduced**

Injured workers have received three 2.5% increases from the 2007 legislative amendments, but these have been barely enough to keep pace with inflation. Injured workers remain nearly 20% more poor than they were in 1996.

<b>Year</b>	<b>Benefits Up</b>	<b>Inflation Up</b>	<b>Lost To Inflation</b>
2008	2.5%	2.0%	(-0.5)%
2007	5.0%	2.1%	(-2.9)%
2006:	0.3%	2.6%	2.3%
2005:	0.2%	2.3%	2.1%
2004:	0.0%	1.6%	1.6%
2003:	0.6%	3.2%	2.6%
2002:	0.0%	1.9%	1.9%
2001:	0.4%	2.8%	2.4%
2000:	0.2%	2.3%	2.1%
1999:	0.0%	1%	1%
1998:	0.0%	1.5%	1.5%
1997:	0.3%	1.7%	1.4%
1996:	<u>0.8%</u>	<u>2.4%</u>	<u>1.6%</u>
<b>Totals:</b>	<b>10.3%</b>	<b>27.4%*</b>	<b>17.1 %* reduction of injured workers' benefits in 12 years</b>

Despite recent increases, injured workers are still trying to survive on nearly 20% less than they received in 1996.

\*The actual figure is higher due to the cumulative effect.