

3 May 2011

WSIB Funding Review
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Dear Advisory Panel:

Re: Funding Ontario's Workplace Safety and Insurance System – A Green Paper for Public Discussion Issued by The WSIB Funding Review – H.W Arthurs, Chair

Your Advisory Panel has accepted a mandate from the Ontario Government at the request of the Workplace Safety and Insurance Board (WSIB) to review and make recommendations concerning the WSIB's financial future. Financial Executives International Canada (FEI Canada) commends WSIB for undertaking this initiative and we thank you for this opportunity to participate in the discussions on the diverse issues.

FEI Canada is a professional association of senior financial executives, with eleven chapters across Canada and approximately 2000 members. Membership is generally restricted to senior financial officers of medium to large corporations, as well as senior financial officers in public sector organizations. We have 813 members in Ontario, representing approximately 40% of the total in Canada.

The Issues and Policy Advisory Committee (IPAC) is one of two national advocacy committees established by FEI Canada. IPAC comprises more than 60 senior financial executives representing a broad cross-section of the Canadian economy, who volunteer their time, experience and knowledge to consider and recommend action on a broad range of topics of interest to Canadian business and government agencies. While diverse in scope, IPAC focuses its energies through six disciplines, and/or committees, namely:

- Corporate governance and internal controls
- Treasury and capital markets
- Taxation
- Pension plan funding
- Private company issues; and
- Financial uses of information technology.

The IPAC mandate is to broaden awareness on issues and continually prompts accountability and improved practices in these areas. The other major FEI Canada technical committee is focused on corporate reporting and continuously liaises with accounting authorities and the Ontario Securities Commission and its counterparts across Canada.

In macro-terms, basic platform concepts endorsed by FEI Canada include:

- Continuous improvements on Canadian productivity (capital & labour) in support of domestic & international competitiveness
- Consistency and uniformity – especially on national laws & regulations, governance standards and accounting principles
- Transparency and accuracy through the provision of meaningful financial information
- Fairness and equity amongst competing constituents
- Effective communications through simplicity and clarity on underlying concepts; and to
- Act as the leading body for dissemination of knowledge pertaining to the finance function in business and government

Our members are confronted with WSIB issues as part of their finance responsibilities and in support of their employer's pursuits on the value of goods and services consumed and sold in their business operations. As pertaining to WSIB, finance issues include, but are not limited to the cost of legislated benefits, workforce coverage by WSIB and/or alternative disability insurance plans, premium rates and associated risk mitigation programs and the impact of investment results on the financial viability of WSIB as government sponsored enterprise in the insurance business.

In the context of the WSIB Review Panel's mandate, we make a number of observations and then conclude with responses to the questions, on which we feel qualified to answer, as advanced within *Funding Ontario's Workplace Safety and Insurance System: A Green Paper for Public Discussion*, issued by The WSIB Funding Review (2011) secretariat.

- At the outset, we find ourselves aligned with many of the key concepts cited in *Section 3.14 – Unfunded Liability of the Workplace Safety and Insurance Board* within the 2009 Annual Report tabled by the Office of the Provincial Auditor in the Legislative Assembly of Ontario on December 9, 2009.
- Peer comparisons in the Auditor General's report with other provinces highlight how Ontario has fallen behind in best practices and in its failure to grapple with the fiscal impacts of legislated changes, especially those following the 2007 Ontario Budget.
- FEI Canada believes there is merit in exploring an ongoing inter-provincial body of workplace safety and insurance administrators and professional's equivalent to the

Canadian Association of Pension Supervisory Authorities (CAPSA) to share best practices.

- WSIB responses to the 2009 Report of the Ontario Auditor General appear to indicate WSIB has tried and experienced limited success in providing a plan to eliminate the accumulated WSIB deficit. We expect the conclusions and recommendations by your Review Panel will be significant in mending this unsustainable situation.
- The 2009 Report of the Ontario Auditor General cited governance issues, particularly a lack of clarity in the respective roles of the WSIB and the Government of Ontario, as outlined in the guiding principles in the Memorandum of Understanding. Amongst other things, the Memorandum of Understanding clearly calls for the WSIB to be managed in a financially accountable manner. FEI Canada urges confirmation and/or adoption of the insurance industry model, which provides a sound framework to evaluate and administer fundamental business management practices, including the financial stability of WSIB and the sustainability of promised WSIB benefits.
- FEI Canada endorses the application of insurance regulation principles, including solvency benchmarking based on the maintenance of minimum levels of continuing capital surplus. Otherwise, one can readily discern an unsupportable dichotomy between a government sponsored enterprise and private business practices. Guidance on this matter should be sought from the Office of Financial Services Commission of Ontario and/or the Office of the Superintendent of Financial Institutions, Canada.
- Unrealistic expectations on a combination of premium levels, qualified claims payments and investment returns amongst others things have resulted in the WSIB being in an under capitalized and fiscally unsustainable position and as well, as a government sponsored insurance enterprise. The consequence of this action is an inter-generational transfer and a requirement by participating insured parties to add historical costs to current and future goods and services prices in an increasingly competitive marketplace.
- The investment return assumption, which we assume to be the same as the benefit discount rate of 7%, is unrealistically optimistic. Shortfalls in earning this assumed investment portfolio return threshold and/or target represent one of the material contributors to the growing unfunded obligation. In macro economic terms, long term investment results are derived and constrained by the sum of simple factors, including population growth, demographics, productivity in the Canadian economy, unique features exploited in an actively managed investment portfolio and inflation.

Our analysis indicates the investment and/or discount rate assumptions should be lowered to a sustainable level in the area of 3.5% real investment returns, which will consequently result in a higher than reported unfunded obligation in relation to the current market value of WSIB investment portfolio assets.

- While we support increased WSIB policy allocations to alternative investment assets, the availability of higher anticipated returns from deployments into infrastructure investments, private equity, foreign securities and real estate are not without a combination of higher risk and volatility, unique investment management issues and reduced liquidity. WSIB and the Ontario government should not be surprised with adverse short term investment results in the pursuit of long term investment programs.
- The longevity and/or the duration of WSIB benefit obligations has grown faster than estimates upon which premium levels have been calculated and collected over the past ten years, ostensibly in no small part due to legislative changes (e.g. Bill 99), along with higher health care services being consumed by those having benefits in pay and discernibly higher claims experience related to ineffective workplace practices, which have not improved with current WSIB incentives.
- The 2007 Institute for Work and Health study concluded only systemic change would make it possible for WSIB to reverse the upward trend in benefit duration. FEI Canada is in full agreement. Hence, Legislative and fundamental administrative changes are required to abate increases in claims duration from lost time injuries in the workplace. Required changes include selective premium increases, tighter definitions on qualified benefit payments, enhanced financial accountability in the claims adjudication process and more effective communications to promote better workplace safety practices. These measures should be implemented with clear WSIB responsibility, especially for qualified claims definitions and a requirement to eventually fund benefit liabilities.
- FEI Canada is uncertain on the logic associated with the Auditor General of Ontario's suggestion that a broadening of the base of insured employers and employees to include the entire Ontario workforce, for example into service industries, would stabilize and improve the fiscal balance within WSIB.

We now specifically address your questions outlined under *An Introduction to the Key Issues*. We did not repeat the questions in our submission for the sake of brevity.

Issue 1. Funding – Questions 1 and 2.

The WSIB funding target should be to reduce the unfunded liability to acceptable levels, that being within insurance industry standards. The Office of the Financial Services Commission of Ontario and/or the Office of the Superintendent of Financial Institutions, Canada regulate minimum continuing capital surplus standards for private insurers. These regulators also require insurance underwriters to maintain a margin of safety, which could be described as a cushion for unforeseen contingencies. The time frame for WSIB to accomplish a minimum funded requirement should be within the guiding principles financial regulators apply on relevant private sector insurance entities and be guided by those established for registered pension plans.

Issue 2. Premium rates – Questions 3 and 4.

Expert advice on WSIB premium setting practices and approved methodologies is for actuaries and other insurance experts to decide. The objective should be to calculate premiums at a level sufficient to be revenue neutral, plus sufficient excess net revenue to finance the amortization and/or funding of unfunded arrears and a modest margin of safety for unforeseen contingencies.

Issue 3. Rate groups – Questions 5 and 6.

We prefer to leave it to experts to experience rate various industry groups, with the required premium rates being set within the context of our answers to Questions 1 to 4.

Issue 4. Employee incentive programs – Questions 7 and 8.

We find this a fertile area for employers to work with employees in the workplace by being imaginative in developing programs, a safety ethic and workplace practices and procedures that re-enforce the importance of reducing risks to injury and, where unfortunate accidents do occur, to rehabilitate injured parties as quickly and as feasibly as possible.

Issue 5. Funding for occupational disease claims – Questions 9, 10 and 11.

We do not feel qualified to add any relevant content to these questions.

Issue 6. Rate groups – Question 12.

From a macro-economic and a portfolio investment perspective, indexation is a systemic and uninsurable risk. Where inflation protected securities are available, they afford limited features and/or techniques to cover and/or fund such a benefit.

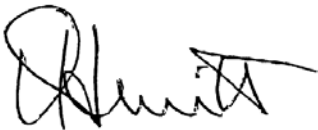
We hasten to add, from a fiscally responsible standpoint, partial indexation is more prudent than full protection. The best overall assurance on WSIB benefit payments, as with all post employment benefits, is that premised upon Canada having sustainable monetary and fiscal policies, a strong and productive economy along with a workplace and/or efficient employers that sell goods and services which provide a good value proposition to customers in an internationally competitive marketplace.

We hope that our comments are helpful in your deliberations and we remain available for further consultations at your convenience.

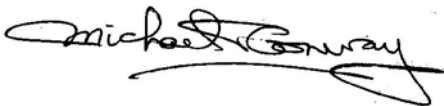
Yours truly,



D. Peter Donovan
Chair, Pension Committee



William E. Hewitt
Chair, Issues and Policy Advisory Committee



Michael Conway
Chief Executive and National President
FEI Canada