



Report to: General Committee

Date Report Authored: November 1, 2013

SUBJECT: WSIB Excess Workers Compensation Insurance

PREPARED BY: Fred Rich, Senior Business & Risk Analyst ext. 3733

RECOMMENDATION:

- 1) THAT the report “WSIB Excess Workers Compensation Insurance” be received;
- 2) AND THAT the City discontinue the purchase of WSIB Excess Workers Compensation Insurance as of January 1, 2014;
- 3) AND THAT a new WSIB Excess Compensation Reserve Fund be created to fund potential WSIB benefits and administration costs arising out of a single WSIB incident in excess of \$1 million;
- 4) AND THAT the WSIB Excess Workers Compensation Insurance budget of \$185,000 (2014 proposed budget), included in the Corporate Insurance Premium Account, be annually transferred into the WSIB Excess Compensation Reserve Fund and a 8.1% inflation escalation be added annually to the transfer;
- 5) AND THAT Staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

The purpose of this report is to obtain approval to fully self insure the City’s WSIB exposure and setup a new WSIB Excess Compensation Reserve Fund, in addition to the current Workplace Safety & Insurance Board Reserve Fund.

BACKGROUND:

Since 1999, at the advice of Nexus Actuarial Consultants (Nexus) and based on lower than average Schedule 1 WSIB claims costs, the City became a Schedule 2 WSIB employer. Schedule 2 WSIB employers pay all WSIB benefits awarded to employees under workers’ compensation legislation, instead of paying annual premiums to the WSIB. In order to manage the future WSIB costs, Nexus recommended purchasing WSIB Excess Workers Compensation Insurance and creating a WSIB reserve fund. The initial WSIB Excess Workers Compensation Insurance provided coverage for extraordinary WSIB claims in excess of \$250,000, to a maximum of \$25 million per claim. To fund the future liability related to current WSIB claims, a WSIB reserve fund was established, and a total of \$2,000,000 was transferred into the reserve fund over the first 5 years (1999 to 2003) from the year end surplus, and WSIB premium savings. The 2012 WSIB reserve fund balance was \$2.836 million, which fully funds the future WSIB liability as required by the Public Sector Accounting Board (PSAB).

WSIB Claims Experience

The City's Schedule 2 WSIB claims have continued to be below the average for municipalities of similar size. The main financial driver of the WSIB claims during the last seven years are firefighter presumptive claims resulting from the Ontario government Bill 221. Bill 221 introduced a presumption that various diseases suffered by firefighters were occupational diseases. The presumptive claims include heart conditions sustained on or after January 1, 1960 and eight specific types of cancer diagnosed on or after that date. These claims are presumed to be due to firefighter employment, unless otherwise established. The City's WSIB claims are low in comparison to the industry average and continue to support the decision to switch to Schedule 2. If the City had remained in Schedule 1, the current annual premium cost would be approximately \$1.4 million, compared to the 2012 claims cost of approximately \$230,000.

WSIB Excess Workers Compensation Insurance

The WSIB Excess Workers Compensation Insurance provides coverage for extraordinary WSIB claims such as multiple injuries resulting from one incident, severe burns or paraplegic or quadriplegic claims, in excess of \$1 million per claim. In 1999, the WSIB Excess Workers Compensation Insurance cost was approximately \$21,000 annually and by 2003 the premium cost had risen to \$77,220. With the City facing a significant premium increase in 2004, the retention limit (deductible) was increased from \$250,000 to \$500,000; however, the premium still increased by 37.2%. The following year (2005), the retention limit was increased to \$1 million, to offset a significant premium increase. Over the past 15 years, the WSIB insurance premium has increased from \$21,000 to \$170,771 (an increase of 713%), even with the retention limit increase and the per claim policy limit reduced from \$25 million to \$15 million. The two main drivers of the annual premium increases are: the annual increase in the City's assessable earnings (salary costs which the premium is based on); and, the annual increase in the premium rate (general increase). The total premium cost of the insurance over the last 15 years is approximately \$1.359 million.

DISCUSSION:**Actuarial Review**

Due to the escalating cost of the WSIB Excess Workers Compensation Insurance since 1999, staff retained Nexus to consider the practicality of continuing the insurance coverage or the feasibility of fully self insuring the WSIB exposure.

Nexus Analysis**Significant WSIB Claims**

As stated previously, the significant WSIB claims are related to the firefighter presumptive legislation. Although a number of firefighter presumptive legislation claims have been processed, the majority, if not all of these costs will be borne by the City as the per claim cost is below the City's retention level. Therefore, limited coverage would be provided by the WSIB Excess Workers Compensation Insurance.

Catastrophic Claims

Nexus currently defines a catastrophic claim as one costing in excess of \$2.5 million in WSIB benefits and administration costs. Most catastrophic claims have more than \$1,500,000 in WSIB health care costs. Catastrophic claims are possible, but not very probable. Of the municipalities in Ontario, Nexus estimates that one municipality will have a catastrophic claim in a 5 year period. Many of the catastrophic claims in the last 30 years involve police officers with paraplegic or quadriplegic injuries. Severe burn cases (firefighters) can also be catastrophic. Multiple injuries resulting from one incident can also be catastrophic; however, these claims are less likely than a single catastrophic claim.

Insurance Costs

Over the past 15 years, the WSIB insurance premium has increased from \$21,000 to \$170,771 (an increase of 713% over the 15 year period or an average of 16% per year), with a total premium cost of \$1.359 million. At the same time, the insurance retention limit has been increased from \$250,000 to \$1,000,000 and the per claim policy limit has been reduced from \$25 million to \$15 million. The average annual increase during the 15 year period is 16.1% and during the last three renewals has been 8.1%. Although the potential always exists to have a WSIB claim greater than the \$1 million retention limit, the City's WSIB claims experience has consistently been lower than industry average and as such the Excess Workers Compensation Insurance coverage has not yet been utilized.

WSIB Excess Compensation Reserve Fund

To determine the feasibility of cancelling the WSIB Excess Workers Compensation Insurance and creating a new Markham WSIB Excess Compensation Reserve Fund, Nexus developed five disaster claim scenarios over a 15 year period. The five scenarios include; a scenario with no disaster claim, three scenarios with one disaster claim at different points in time, and one with two disaster claims in the 15 year period.

In all five scenarios the fund would have a positive reserve balance throughout the 15 year term. The end of term balances range from \$1.7 million (two disaster claims) to \$6.3 million (zero disaster claims).

The funding of the above mentioned scenarios are based on the WSIB Excess Compensation Reserve Fund receiving annual contributions equivalent to the WSIB Excess Workers Compensation Insurance premiums including taxes, interest income of 3.75% (City's average rate of bond holdings for 2013 has been 3.78%), and an annual escalation of 8.1% to match the average increase over the past three renewals. Nexus recommends a WSIB Excess Compensation Reserve Fund balance of \$3 million dollars, enough to fund one and a half catastrophic claims over \$1 million. Based on the funding parameters mentioned above, the fund balance should be \$3 million as of 2023 (assuming no claim payments and an interest rate of 3.75%). Based on the results of the Nexus analysis discussed above, staff recommend discontinuing the purchase of WSIB Excess Workers Compensation Insurance as of January 1, 2014 and the establishment of a new WSIB Excess Compensation Reserve Fund in 2014. Until the fund reaches the Nexus recommended balance of \$3 million, the WSIB Excess Workers Compensation Insurance budget will be transferred into the WSIB Excess Compensation Reserve Fund, including

an annual 8.1% inflation escalation. The 2014 transfer to the WSIB Excess Compensation Reserve Fund will be \$185,000.

FINANCIAL CONSIDERATIONS AND TEMPLATE: (external link)

The funding for the transfer of the 2014 WSIB Excess Workers Compensation Insurance budget (\$185,000) to the WSIB Excess Compensation Reserve Fund is available in the 2014 Corporate Insurance Premium Account (840-846-5555) (pending Council approval). The WSIB Excess Compensation Reserve Fund will receive interest at a rate equivalent to the City's average rate for the bond holdings (The City's 2013 average rate for bond holdings has been 3.78%). The impact related to the future annual transfer of the WSIB Excess Workers Compensation Insurance budget into the WSIB Excess Compensation Reserve Fund, including the proposed annual 8.1% inflation escalation, will be considered as part of the annual operating budget process.

HUMAN RESOURCES CONSIDERATIONS:

None

ALIGNMENT WITH STRATEGIC PRIORITIES:

None

BUSINESS UNITS CONSULTED AND AFFECTED:

None

RECOMMENDED BY:

14/11/2013

15/11/2013

X 

Joel Lustig
Treasurer

X 

Trinela Cane
Commissioner Corporate Services

ATTACHMENT: None