The Looming Workers' Compensation Crisis

A Canada-Wide Problem

Employers across the country face larger bills from their Workers' Compensation Boards as virtually all WCB systems have major deficits

Ontario employers are confronted with the largest problem - Their WCB has a deficit of over $11 billion and grows each year by an additional $1 billion of losses. The Quebec WCB has a deficit of about$5 billion. In Alberta, the unfunded total is about $350 million. British Columbia, is currently the best off of the large WCBs - it is in a deficit position of $97 million.

A general index of the relative costs for the WCB systems is provided through the average assessment rates for the various provinces. These rates are shown as the dollar amount per $100 of payroll. In almost all provinces, rates can be expected to

rise dramatically in 1994.

The Causes

The basic cause for the financial problems of Canadian WCBs is that claim costs are escalating rapidly. In many provinces, including B.C., Alberta and Ontario, the rate of injury is actually dropping. But the duration of the claims - time off work - is getting longer.

This may be a reflection of two factors not related to workers' compensation. First, the shrinking number of jobs has meant that it is more difficult for workers to go back to work after an injury. When work is not available, more workers may choose to stay on WCB longer because it provides a generous level of income. Physical jobs in construction are disappearing at a faster rate than white collar jobs. Second, the work population is aging and any workers who have physically demanding jobs may not be able to do them any more.

The end result is that more workers may be turning to workers' compensation as a social assistance program. This clearly is not what the WCBs were established to do, nor are the systems financially structured to pay these non-work related benefits.

A General Benefit Structure

Another major cause of the growing financial burden is that the WCB systems pay

generous benefits. In hard times, the WCB is the most secure form of income replacement. This again was not the original purpose of workers' compensation.

Across Canada, many WCBs are not re-examining their benefits to determine what should come within compensation. The various provincial WCBs are often heading in different directions.

In British Columbia, Nova Scotia and Prince Edward Island, WCB benefits are 75% of the worker's wage, tax free, up to a wage ceiling. In B.C., for example, a single worker making $50,000 a year would make more on WCB than while working. The typical worker's take home pay, after deductions, would be $37,500, tax free from the WCB.

Recent Changes to Balance Benefits

Significant changes to the benefit levels have been made in the Newfoundland and New Brunswick WCB's. In Newfoundland, income replacement was reduced from 90% net earnings to 75% net for all new claims and recurrences of previous injuries as of January 1, 1993. In New Brunswick, as of the same date, income replacement was reduced from 90% net to 80% net for the first 39 weeks and to 85% net thereafter; and a three day waiting period has been introduced.

The biggest positive changes to date have been in the Manitoba WCB. In that province, a major restructuring of compensation benefits has taken place. One of the new provisions eliminates a major dis-incentive which frequently occurs in the public sector. Many public sector employers add to the benefits their workers receive while on WCB. In B.C., for example, a public sector employee receiving 75% of their wage, tax free, might receive 25% as a "top up." The result can be a take home cheque which is 135% of what the take home pay was when working. There is little incentive here to return to work. Manitoba has changed its legislation so that any topping up by employers is taken into account when compensation is paid. As well, no worker may receive more than 90% of net earnings. Any "top up" payment by employers will be included in the WCB's calculation of payments.

Manitoba has also changed its benefit structure. The Manitoba WCB pays 90% of the worker's net earnings on wage loss compensation. This is paid until the worker returns to work or reaches the age of 65. After 24 months on wage loss, the rate changes to 80% net plus 5% of wage loss benefits in the form of an annuity.

Changing Policies

Any significant change to WCB policies can have an impact of tens of millions of dollars. All increases to benefits also cast a long financial shadow into the future.

In Ontario, for example, the WCB developed a White Paper on Stress with a liberal policy of accepting claims for work-related stress. A study of the potential effect for the policy found that it would cost an estimated $180 million per year in additional benefits.

In Manitoba, the WCB has decided that a claim based on stress is only acceptable when it directly relates to workplace trauma - for example, the psychological stress

that might develop if a worker were to see a fellow worker badly injured. British Columbia currently has a similar policy, though this has been challenged by at least one recent decision, which is under appeal by the employer.

Manitoba has also defined the acceptability of occupational diseases so that the "dominant cause" of the occupational disease must be the workplace.

In British Columbia, spousal WCB benefits for the dependents of fatally injured workers had formerly ceased when the spouse remarried. The government decided to change the legislation so that the benefits would continue, no matter if the spouse remarried. The result was a $77 million extra hit on the deficit for 1993, with additional costs of $10 million per year thereafter.

WCB in British Columbia

The WCB in British Columbia is in better financial shape than most of its counterparts across the country, but the financial trends are negative. In 1988, the WCB had a surplus of $229 million. By 1991, this surplus was reduced to $67 million. At the end of the 1992 fiscal year (December 31), the WCB has sunk into a deficit position of about $97 million. With the current trends in claims costs, the deficit will be about $400 million by the end of 1993.

Administrative costs are spiraling upwards. Over the years, operating costs for this system have grown by leaps and bounds.

year	administration costs	short term disibility claims
1988	$88,033,000	71,381
1989	$97,863,000	77,425
1990	$121,461,000	83,044
1991	$151,139,000	77,644
1992	$172,364,000	77,274
1993	$184,566,000(est)	76,000(est.)

From 1988 to 1992, the administration costs increased from $88 million to $172 million, outstripping all business activity, including the growth of claims. Over the last two years, the WCB continued to increase its own spending while industry struggled to survive the recession.

From 1989 to 1990 alone, administration costs increased 24%. The system will probably cost almost $100,000,000 more in 1993 than it did in 1988 when it administered almost the same number of claims.

A large part of this increase in administration costs is due to the growth of staff. In 1988, the WCB was able to manage with 1,611 staff. By 1992, with limited growth in its business activities, staff had grown to 2,412.

WCB in Alberta

In Alberta, the unfunded liability is moving in the right direction. It peaked in 1991 at $601 million and is expected to decline to less than $350 million at the end of 1993. Other good news can be found in the dramatic drop in lost time claims from 5.1 claims per 100 workers in 1988 to 3.9 in 1992. Unfortunately the cost of these claims is skyrocketing. An average claim in 1988 was $7,900 while in 1992 it was $14,200 - a whopping increase approaching 80% in five short years. With claim costs rising this fast WCB assessments have gone up even with industry experiencing fewer claims.

Business in Alberta has been very critical of the rise in claim costs and the increase in the administrative component. In early 1993 Alberta's Labour Department initiated a major reorganization of WCB which resulted in a reduction in over 200 positions and layoffs of 120 people. If preliminary estimates hold true, administrative costs will decline 18% in 1993. The chart following summarizes key statistics for Alberta.

Alberta WCB Data

	Lost time Claims	Cost/Claim	Total WCB Admin. Costs (million)	Admin. Cost/Claims
1988	43,800	$7,900	$42.9	$979
1989	44,500	$9,300	$61.8	$1,388
1990	44,400	$10,900	$87	$1,959
1991	37,800	$12,700	$96	$2,539
1992	33,500	$14,200	$109	$3,264
1993	32,500(est.)	N/A	$89(est)	$2,738(est.)

New Construction council focuses on WCB

To deal with these and related WCB policy issues, the construction industry in B.C. decided to form a council so that the industry could speak with one voice.

The Independent Contractors and Business Association is a founding member of a new group which has been formed to focus on workers' compensation issues. The Council of Construction Associations (COCA) will be the largest sectoral association in the province. (More than 117,000 workers are employed within the construction industry.)

Seventeen individual associations make up the umbrella organization which began operations in January. Dave Robertson, President of the B.C. Construction Association, played a key coordinating role in assembling the group. For the first time ever, COCA brings together non-union and union construction organizations to work toward a set of common goals.

COCA will provide a focal point for getting action on construction industry concerns about the Workers' Compensation Board. It will also raise the profile and the recognition of the industry. One of the major issues that COCA is tackling is the way in which WCB overcompensates for earnings over $30,000 a year resulting in workers receiving greater after tax incomes while on compensation. COCA is asking for a review and change to the benefit formula in the legislation.

In Alberta, the business community formed an association to advocate reform of WCB. The Industry Task Force on Alberta WCB was formed in 1983 and has as members over 28 organizations representing 85% of Alberta employers. They are active in recommending change to legislation, monitoring assessment rates and reviewing WCB claim and administration costs.

As financial pressures build, it is likely that more Canadian WCBs will examine the basis for compensation. A return to the basics would serve the system well. Workers would receive the benefits to which they are entitled by their work-related injury or disease, while employers pay fair costs for an equitable system.