

Reserve Structure Summary & Comparison

The new reserve structure was developed in conjunction with the Board's Actuary, Hewitt & Associates, based on the stakeholder feedback. The new structure will be effective beginning in 2005.

The new and previous reserve structures are summarized below:

New Reserve Structure	1998-2004 Reserve Structure
<p>The new reserve structure consists of two main components:</p> <ul style="list-style-type: none">A) Temporary FundsB) Reserves	<p>The previous reserve structure consisted of the following:</p>
<hr/> A) Temporary Funds <hr/>	1. Prevention and Benefit Enhancement Reserve
1. Prevention Fund	Objective:
<p>Objective: To provide funding for the initial start up costs of eligible accident prevention and workplace safety initiatives.</p>	<p>To provide funds for expanded prevention services and benefit enhancements.</p>
<p>Funding: A \$5 million fund that will not be replenished once exhausted.</p>	Funding:
<p>Conditions of Use: The criteria for eligible programs are currently under development by the board in conjunction with YWCHSB's Prevention Committee.</p>	<p>Funding Target = the initial amount of the reserve identified as at December 31, 1997 plus an annual interest allocation charged at the same rate as the annuity liability</p>
2. Rate Transition Fund	2. Target Reserve
<p>Objective: To provide funding for the removal of the current assessment rate subsidies.</p>	Objective:
<p>Funding: A \$6.5 million fund that will not be replenished once exhausted.</p>	<p>To 'target' funding towards the principal financial risks faced by the Board. This reserve was comprised of the following components:</p>
<p>Conditions of Use: The amount of the annual assessment rate subsidy will be calculated by the YWCHSB's actuary and charged to this fund.</p>	b) Catastrophic Claims
<hr/> B) Reserves <hr/>	Objective:
1. Adverse Events Reserve	<p>To provide funds in the event of a catastrophic accident. In a small jurisdiction, a single catastrophic event, such as a plane crash, would seriously impact the financial position of the Board.</p>
<p>Objective: To provide funding for the cost of infrequent, unexpected adverse claims experience so as to protect employers from being unduly burdened by the excessive costs of these events.</p>	<p>Funding: Target = 200 times the maximum wage rate. The funding rate for this reserve was set to approximate the cost of 20 fatalities.</p>
	c) Adverse Claims
	Objective:
	<p>To provide funds for years when the actual claims experience is significantly different from the claims experience projected in the benefits liability calculation.</p>
	Funding:
	<p>Target = 16% of the unsubsidized assessment revenue plus 12% of the benefits liability</p>
	d) Occupational Disease
	Objective:
	<p>To provide funds for injuries that are not yet compensable or have not yet progressed to the point of disability. The nature of the latter is such that the delay</p>

Reserve Structure Summary & Comparison

New Reserve Structure

Funding:

Target = Catastrophic component of 100 x the maximum wage rate plus an adverse claims component of 10% of the benefits liability

Operating Range:

This reserve does not have an operating range. The intention is to maintain it at the target level.

Conditions of Use:

- ♦ The cost of infrequent, unexpected adverse claims experience with an identifiable cause will be charged to this reserve.
- ♦ Funding surpluses will be transferred to the Stabilization reserve.
- ♦ Funding deficiencies will be replenished by any one or a combination of the following:
 - i. Cost recoveries
 - ii. A Stabilization Reserve surplus
 - iii. Surcharges on employer assessment rates over and above base assessment rates
- ♦ The timeframe for the recovery of funding deficiencies is based on a graduated schedule. This schedule provides for different recovery periods depending on the percentage increase in base assessment rates.

The result is that a smaller deficit is recovered over a shorter period of time than larger one. The recovery schedule is currently being finalized and will be formalized in the YWCHSB's funding policy which is currently under development.

2. Stabilization Reserve

Objective:

To protect the fully funded position of the board and to stabilize the effect of random fluctuations in the board's financial experience on employer assessment rates.

Funding:

Funding Target:

= 10% of the benefits liability

Operating Range:

= +/- 3.5% of the benefits liability

1998-2004 Reserve Structure

between the work-related incident and the onset of the disability can be significant. One example would be noise-induced hearing loss.

Funding:

Target = 7% of the benefits liability

3. Rate Transition Reserve

Objective:

To provide funding for the stabilization of assessment rates in the Yukon.

Funding:

This reserve was funded with excess reserves attributable to investment gains, claims experience gains and assessment revenues in excess of claims costs.

Target = any surplus after the appropriate funding to the other reserves

Reserve Structure Summary & Comparison

New Reserve Structure

If the reserve balance is within the operating range then adjustments to employer assessments rates are not required for the Stabilization reserve. Note that this does not preclude a rate adjustment to fund any deficiencies in the Adverse Events Reserve.

Conditions of Use:

- ◆ The annual operating surplus/deficit, excluding the costs of any events charged to the Adverse Events Reserve, represent the normal operating fluctuations in the board's financial performance and will be charged to this reserve.
- ◆ Funding surpluses are treated as follows:
 - a) Funding surpluses are first used to fund any deficiencies in the Adverse Events reserve. By doing this, it allows the board the possibility of reducing the assessment rate surcharge put in place to recover a deficiency in that reserve
 - b) Any remaining funding surpluses are rebated to employers through a reduction of assessment rates over and above base assessment rates.
- ◆ The timeframe for the rebates of funding surpluses is based on the same graduated schedule as discussed in the Adverse Events Reserve section of this document. In this case, this schedule provides for different rebate periods depending on the percentage decrease in base assessment rates.

The result is that a smaller surplus is rebated over a shorter period of time than a larger one. The recovery schedule is currently being finalized and will be formalized in the YWCHSB's funding policy which is currently under development.

- ◆ Funding deficiencies will be replenished by one or both of the following:
 - a) An Adverse Events Reserve surplus
 - b) Surcharges on employer assessment rates over and above the base assessment rates
- ◆ The timeframe for the recovery of funding deficiencies is based on the same graduated schedule as discussed in the Adverse Events Reserve section of this document.

1998-2004 Reserve Structure

Reserve Structure Summary & Comparison

Comparison of Reserve Structures and Balances

Reserves (\$000)	2005 Opening Balances	2004 Results
New Structure		
Prevention Fund	\$ 5,000	
Rate Transition Fund	6,500	
Adverse Events Reserve	16,380	
Stabilization Reserve	7,731	
1997- 2004 Structure		
Benefit Enhancement Reserve		\$ 10,663
Rate Transition Reserve (1998-2003)		-
Target Reserve		
Catastrophic Claims		13,400
Adverse Claims		13,786
Occupational Disease		6,776
Target Reserve Total		33,962
Unallocated Amounts	-	(9,014)
Reserves Total	<u>\$ 35,611</u>	<u>\$ 35,611</u>