Impact of Rising Medical and Wage Costs on Canada’s Workers’ Compensation System in 2025

Introduction

Canada’s workers’ compensation system is feeling the pressure of recent economic trends. Higher medical inflation and rising wages in 2025 are increasing the cost of workplace injury claims. This report provides a nationwide overview of how these cost pressures are affecting the system’s sustainability, employer premiums, and worker benefits. It also examines policy responses and reforms aimed at maintaining balance in the system. Recent data and reports are cited to illustrate these trends.

Sustainability of the Workers' Compensation System

Despite inflationary pressures, most provincial workers' compensation boards entered 2025 in a strong financial position, with many funds fully funded or in surplus. For example, Yukon's compensation fund was **142% funded** at the end of 2023, far above its target range of 121–129%, enabling rebates to employers awcbc.org. Newfoundland and Labrador's Injury Fund was **121% funded** in 2023, prompting a continued temporary premium discount to draw the funded ratio down to a 110% target awcbc.org. Strong investment returns in recent years have bolstered these funds, contributing to **"strong financial results"** that have kept rates stable in provinces like British Columbia worksafebc.com.

However, rising medical and wage costs are a growing concern for long-term sustainability. The Saskatchewan WCB noted that **inflation has driven up medical service fees, wage replacement benefits, and administrative costs**, which together are "the key drivers of claims costs" wcbsask.com. While higher employer payrolls (due to wage growth) are currently offsetting these cost increases, officials caution that **inflation and costlier claims will put "long-term upward pressure" on premiums** and funding needs wcbsask.com. In Nova Scotia, where the compensation system has historically been under strain, a 2024 review highlighted that the province's board remains only **93% funded** (within its target range but below full funding) despite having the highest employer premiums in Canada hcamag.com. This indicates that in jurisdictions with legacy funding shortfalls or high injury rates, rising costs can threaten the system's financial balance unless addressed. Overall, the system remains stable nationwide in 2025 due to prior gains and reserves, but boards are closely monitoring cost trends to ensure the **"future of our compensation system"** is secure wcbsask.com.

Effects on Employer Premiums

Thus far, rising claim costs have not translated into across-the-board premium spikes for employers in 2025. In fact, **premium rates have remained stable or even decreased in many provinces**, thanks to strong funding positions and deliberate policy choices. Ontario's Workplace Safety and Insurance Board (WSIB) lowered its average premium rate to **$1.25 per $100 payroll for 2025 – the lowest rate in over 50 years** wsib.ca. This continues a trend of rate cuts (over 50% reduction in the past decade) and has generated significant savings for employers wsib.ca. Likewise, Yukon's board announced **rate reductions across all industries for 2025**, with most employers seeing a >5% decrease, reflecting the territory's robust surplus and improved safety record awcbc.org.

Several other jurisdictions opted to hold rates steady. Saskatchewan's average premium remains at **$1.28** for the second year in a row, as **growing payrolls are expected to offset rising claim costs** wcbsask.com. WorkSafeBC in British Columbia kept its base rate at **1.55% of payroll for 2025**, unchanged since 2018, crediting "strong financial results" and collaborative injury prevention efforts for keeping costs in check worksafebc.com. Newfoundland and Labrador's WorkplaceNL held its average assessment at **$1.73 (including a temporary $0.21 discount)** for 2025, continuing a discount introduced in 2019 to rebate surplus funds awcbc.orgawcbc.org. The Northwest Territories/Nunavut WSCC similarly left the average rate at **$2.40**, a level unchanged since 2020 awcbc.org. These stable rates suggest that many boards are absorbing higher costs by leveraging prior surpluses and investment income rather than immediately passing them on to employers.

That said, not all regions avoided increases. Alberta's WCB implemented a **small premium increase of about 3.7% for 2025**, raising the average rate from $1.36 to $1.41 per $100 payroll wcb.ab.ca. Even this rise was moderated by a deliberate subsidy: Alberta's board noted it *should* charge $1.48 to fully cover forecasted 2025 claim costs, but it provided a **7-cent discount per $100 (about $95 million total subsidy)** from its Accident Fund to ease the burden on employers wcb.ab.ca. This is part of a multi-year strategy in Alberta to gradually realign premiums with true claim costs while **"providing relief for employers and protect[ing] worker benefits"** wcb.ab.ca. In Nova Scotia, employers continue to pay the highest rates nationwide (average **$2.65**), reflecting that province's ongoing effort to pay down an unfunded liability and cover high claim costs hcamag.com. About $1.72 of every $2.65 in Nova Scotia's rate goes toward claims benefits (the highest benefit cost share in Canada) and another $0.37 to administration hcamag.com, leaving only a small margin to improve funding.

In summary, employers in most of Canada have not yet seen dramatic premium hikes in 2025 despite rising medical and wage costs. **Many boards have leveraged strong investment returns and reserve funds to keep rates stable** awcbc.org, and some have even cut rates amid improved injury outcomes. Nevertheless, boards are cautioning that if claim costs continue to rise faster than payroll or investment growth, **future premium increases may be unavoidable** wcbsask.com. The emphasis is now on prevention and efficiency to control costs so that employers can continue to enjoy stable premiums.

Impacts on Worker Benefits

Rising wage and medical costs have a direct impact on the benefits received by injured workers. On one hand, workers' compensation benefits are generally designed to keep pace with wage levels and inflation, which has led to **upward adjustments in 2025 to protect workers' purchasing power**. For example, many boards raised their maximum insurable or compensable earnings caps for 2025 in line with general wage growth. Prince Edward Island's WCB increased its maximum assessable earnings to **$82,900 (up from $78,400 in 2024)** awcbc.org, and Yukon set its 2025 maximum at **$104,975** awcbc.org. In Newfoundland and Labrador, the cap (MCAE) rose by **3.1%** to $79,345 for 2025, mirroring the Consumer Price Index increase awcbc.org. These higher caps mean more of a worker's wages are fully covered if they suffer a loss, ensuring **"expanded coverage"** for higher earners as wages rise.

Most jurisdictions also index long-term benefits to inflation to maintain their real value. For instance, Ontario's WSIB announced a **2.6% cost-of-living adjustment for benefits in 2025**, reflecting full CPI indexing wsib.ca. WorkSafeBC applied a **2.02% COLA in January 2025** based on the change in CPI worksafebc.com. These adjustments help injured workers keep up with rising living costs and are a critical counterbalance to inflation. Moreover, because wage replacement benefits are often calculated as a percentage of the worker's pre-injury wage, **recent wage growth means new claims in 2025 come with higher benefit payouts** per claim. As one board noted, inflation has led to **"increases in compensation rates to workers"**, which is a significant driver of claim costs wcbsask.com. For workers, this is a necessary increase to maintain income adequacy during disability.

However, not all effects on benefits have been positive, especially in regions where benefits were historically limited due to financial concerns. The Nova Scotia system, for example, indexes benefits at only **50% of the annual inflation rate**, which in a high-inflation environment has caused *"significant financial hardship for injured workers."* hcamag.com. That province also pays a lower percentage of pre-injury earnings (75% of net for the first 26 weeks, then 85%) compared to 85-90% in most other provinces hcamag.com. Combined with a waiting-period deductible and the lowest wage cap in Canada ($72,500 in 2024) hcamag.com, many Nova Scotia injured workers have seen their benefits lag behind the cost of living. These issues are now recognized in a 2024 review calling for improved indexation and the removal of the waiting period to better support injured workers hcamag.com. The recommendation reflects a broader policy discussion: even as cost pressures mount, there is a push to **enhance benefit adequacy** so that workers are not left behind by rising costs.

Another impact of rising medical costs is on the scope and quality of care provided to injured workers. With healthcare inflation projected around **7.4% in 2025** for Canadian employers' medical plans hrreporter.com, workers' compensation boards are also facing higher prices for treatments, rehabilitation services, and medications. Boards have not cut medical benefits – on the contrary, many are expanding services (for example, PEI is introducing **new psychological injury benefits in 2025** to cover work-related mental health issues awcbc.org). But the higher cost of these services means boards must allocate more funds per claim. This challenge is being addressed by negotiating fee schedules and investing in cost-effective care. For instance, research shows that robust fee schedule policies can temper medical price inflation in workers' comp carriermanagement.com. In Canada's publicly administered healthcare context, workers' comp authorities often work with provincial health systems and private providers to manage treatment costs. There is also a strong focus on **early intervention and return-to-work programs** to shorten claim durations and reduce long-term disability costs. Best practices indicate that *"early reporting and services are an investment"* in better recovery outcomes, which ultimately lowers total benefit costs per claim wcbsask.com. For injured workers, these efforts mean quicker access to treatment and support for returning to work, which can improve their overall recovery experience while also mitigating cost escalation.

In summary, rising wage and medical costs have led to **higher benefit payouts and expanded coverage for workers**, ensuring the value of compensation is largely maintained in 2025. Yet, disparities remain – provinces that historically constrained benefits are under pressure to improve them, and all boards must contend with the higher price tag of medical care. The challenge moving forward will be to uphold the **"no-fault protection"** for workers awcbc.org – adequate wage loss benefits and healthcare – without undermining the system's financial stability.

Policy Responses and Reforms

Policymakers and workers' compensation boards across Canada are proactively responding to these cost pressures with various strategies. A common approach has been prudent financial management to buffer the impact of inflation. Many boards have explicit funding policies that use reserve funds to stabilize rates over the economic cycle. For example, Alberta's WCB deliberately deviated from the usual "pay-as-you-go" principle by **subsidizing premiums with $1.8 billion** from reserves over recent years wcb.ab.ca. This policy, continued in 2025 with a $95 million subsidy, aims to **"ease the financial burden on employers while the economy recovers"** wcb.ab.ca. Similarly, Newfoundland's WorkplaceNL has maintained a **temporary rate discount since 2019** to draw down its surplus, explicitly acknowledging that **"rising costs and possible future benefit changes may also have an impact"** on its funded position awcbc.org. These measures reflect a balancing act: using past gains (surpluses from strong investment returns or lower-than-expected claims) to absorb current cost increases, thereby keeping the system sustainable without sudden shocks to employers or cuts to benefits.

Investment policy is another lever being used to bolster sustainability. Some boards have adjusted their investment strategies to improve returns in the long run. Saskatchewan's WCB, for instance, completed an **"investment optimization"** in 2024 to safely enhance yields, and factored those improved returns into its 2025 rate model to help **"keep premiums stable"** wcbsask.com. A higher return on the accident fund can offset rising claim costs, reducing pressure on premiums. Of course, this approach carries a degree of market risk; boards like PEI's note that

market volatility can impact funded status, so they plan for conservative ranges and adjust as needed awcbc.org.

On the policy front, there is also movement to address the cost drivers directly. **Injury prevention and workplace safety initiatives** are being intensified as a long-term solution to cost pressures. Every prevented injury is a claim cost avoided. Saskatchewan reports that 90% of its employers had zero injuries in 2023 – a historic high – and it is investing in a multi-year strategy targeting serious injuries (which account for over 80% of claim costs) wcbsask.com. The message from boards is clear: if employers and workers "work together to reduce the number of serious injuries and fatalities, we can help minimize the impact" of inflation and cost pressures on the system wcbsask.com. Programs like PRIME in Newfoundland and PEI's safety coaching allow employers to earn rebates or avoid surcharges by maintaining safe workplaces and effective return-to-work programs awcbc.org. These initiatives not only save lives and suffering but also directly contain claim frequency and duration, easing financial strain.

Another area of policy response is benefits and coverage modernization. Several provinces are revisiting benefit policies to ensure fairness amid rising costs. The 2024 Nova Scotia review recommended aligning benefits with national norms – including **full CPI indexing and removal of waiting periods** – to better support injured workers hcamag.com. While implementing these would increase costs, the review suggests offsetting them by scrutinizing administrative expenses and improving return-to-work outcomes hcamag.com. In other words, the solution to cost pressures may include *reallocating resources* – spending more on benefits but finding savings in efficiency and injury reduction. Elsewhere, expanded coverage for conditions like work-related PTSD and other psychological injuries has been introduced (e.g. PEI in 2025) awcbc.org. This policy change responds to the needs of modern workplaces but will require careful claims management and possibly new funding to accommodate potentially higher claim volumes in mental health. Boards are also **adjusting maximum insurable earnings each year to track wage**

growth wcbc.org, a routine policy that prevents erosion of coverage as wages rise. Although this expands liability, it is an accepted cost of keeping the system up-to-date with the labor market.

Lastly, continuous monitoring and stakeholder engagement have become part of the policy response. Workers' compensation boards regularly hold consultations and annual rate reviews where rising cost trends are openly discussed. For example, Saskatchewan's preliminary rate outlook meetings explicitly addressed inflation impacts and communicated how the board plans to manage them wcbsask.com. By being transparent and involving employers and workers in these discussions, boards can adjust policies (such as rate setting formulas or funding target ranges) with buy-in from stakeholders. The cooperative spirit of the **historic compromise** is maintained by emphasizing shared responsibility: employers fund the system, and in return injured workers receive guaranteed benefits – both parties have a role in controlling costs (through safe practices, prompt claim reporting, and rehabilitation efforts) wcbsask.com

Conclusion

In 2025, Canada's workers' compensation system is generally withstanding the headwinds of rising medical and wage costs, but not without careful management. Nationwide trends show a mix of stability and caution: **strong investment returns, high funding levels, and declining injury rates** have allowed many compensation boards to keep employer premiums low or even reduce them wsib.ca. At the same time, officials are sounding notes of warning that **inflation-driven cost increases – more expensive health care, higher wage-replacement benefits, and costly new claim types – will eventually demand a response** wcbsask.com. Workers have largely been protected so far, with benefits indexed and coverage expanded to keep pace with needs awcbc.org. Indeed, ensuring the system's **sustainability** has meant drawing on financial buffers now so that both **employers and injured workers are shielded in the short term** wcb.ab.ca.

Looking ahead, the balancing act will continue. The sustainability of workers' compensation will depend on controlling the underlying drivers of cost: preventing injuries and efficiently treating and rehabilitating those that do occur. Employers may need to brace for gradual premium upticks in coming years if claim costs outrun wage base growth, though these will likely be introduced gradually (as seen in Alberta's phased approach) wcb.ab.ca. Policymakers appear committed to not undermining worker benefits – if anything, the trend is toward enhancing supports like full inflation indexing and mental health coverage, recognizing the importance of adequate compensation for recovery hcamag.com.

In conclusion, Canada's workers' compensation system in 2025 remains fundamentally sound and **built to absorb short-term shocks**, but the rise in medical and wage costs is a stress test for its future readiness. Through prudent funding strategies, collaborative prevention efforts, and thoughtful policy adjustments, compensation boards are striving to maintain the historic promise of the system: protecting injured workers and their employers alike in a fair, sustainable manner, even as economic conditions evolve. The coming years will reveal how effective these measures are in keeping the system affordable for employers and sufficient for workers, against the backdrop of whatever inflation and cost trends lie ahead.

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