Workplace Safety and Insurance Board

Second Quarter **2021** Sufficiency Report

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Table of contents

Management's responsibility for financial reporting

The Sufficiency Ratio and related notes (the "Sufficiency Statement") and the Sufficiency Discussion and Analysis have been prepared by management and approved by the Board of Directors of the Workplace Safety and Insurance Board (the "WSIB"). The Sufficiency Ratio calculation has been prepared in accordance with *Ontario Regulation 141/12* made under the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), as amended by *Ontario Regulation 338/13* and, where appropriate, reflects management's best estimates and judgment. Management is responsible for the accuracy, integrity and objectivity of the Sufficiency Statement within reasonable limits of materiality and internal controls.

The Audit and Finance Committee of the Board of Directors meets with management and the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities. The Audit and Finance Committee also reports its findings to the Board of Directors for consideration in approving the Sufficiency Statement and its reporting submission to the Minister of Labour, Training and Skills Development (the "Minister") pursuant to Section 170 (1) of the WSIA.

This report should be read in conjunction with the WSIB's unaudited condensed interim consolidated financial statements and accompanying notes as at and for the six months ended June 30, 2021 (the "unaudited interim consolidated financial statements").

Tom Bell
President and Chief Executive Officer
September 23, 2021
Toronto, Ontario

Ernest Chui
Chief Financial Officer

Sufficiency discussion and analysis

1. Overview

An explanation of our report and regulations.

The purpose of this report is to provide the Sufficiency Ratio as required under Ontario legislation. The Sufficiency Ratio measures whether there are sufficient funds to meet the WSIB's future expected claims payouts.

Ontario Regulation 141/12 under the WSIA came into force on January 1, 2013 and requires the WSIB to calculate a Sufficiency Ratio and ensure the Sufficiency Ratio meets the prescribed levels by the following dates:

December 31, 2017	60%
December 31, 2022	80%
December 31, 2027	100%

Ontario Regulation 141/12, as amended by *Ontario Regulation 338/13,* which became effective January 1, 2014 (collectively, the "Ontario Regulations"), states that the Sufficiency Ratio shall be calculated by dividing the value of the insurance fund assets by the value of the insurance fund liabilities, as determined by the WSIB, using methods and assumptions that are consistent with accepted actuarial practice for going concern valuations. Going concern valuations are based on the assumption that the WSIB will continue to operate in the future indefinitely.

2. Year to date review

Our performance for the six months ended June 30, 2021 and the effect on our Sufficiency Ratio.

A summary of the Sufficiency Ratio at the end of the following periods is as follows:

	Jun. 30	**Dec. 31**	**Change**	
(millions of Canadian dollars)	**2021**	**2020**	**$**	**%**
Sufficiency Ratio assets	37,548	37,419	129	0.3
Sufficiency Ratio liabilities	(31,430)	(31,893)	463	1.5
Net assets on a Sufficiency Ratio basis	6,118	5,526	592	
Sufficiency Ratio	**119.5%**	**117.3%**		**2.2**

As shown above, as at June 30, 2021, the WSIB had net assets on a Sufficiency Ratio basis of $6,118 million. This means that the Sufficiency Ratio assets exceeded the Sufficiency Ratio liabilities and the WSIB had 119.5% of the assets required to meet its potential future obligations.

The increase in the Sufficiency Ratio was primarily attributable to the recognition of current period investment gains and deferred investment income from prior periods and the going concern adjustments of the employee benefit plans liability.

The Sufficiency Ratio of 119.5% as at June 30, 2021 exceeds the legislated 100% funding level required on December 31, 2027. See Section 3 – Our funding strategy.

3. Our funding strategy

Our funding strategy and how we plan to maintain the Sufficiency Ratio.

In accordance with *Ontario Regulation 141/12*, as amended, the WSIB submitted the 2020 Economic Statement to the Minister of Labour, Training and Skills Development in September 2020. The economic statement includes the sufficiency outlook, which describes the measures being taken by the WSIB to ensure that we have a high degree of confidence that our insurance fund will not fall below 100% funding. Concurrent with the release of the 2020 Economic Statement, the WSIB announced there will be no premium rate increase for 2021 and this rate will be held at the 2020 average Schedule 1 rate of $1.37.

We will continue to manage our investments with the goal of generating returns that meet or exceed the long-term annual investment return objective, while prudently managing the WSIB's operations to ensure premium revenues combined with a prudent expected investment return will cover claim costs, administration and other expenses.

We continually refine our strategy to ensure that the insurance fund can withstand future economic conditions, provide for benefits to people with work-related injuries or illnesses, and provide for premium rate stability for employers. Our Funding Policy requires the Chief Actuary to recommend and management to advise the WSIB as to the margin of prudence that should be maintained over and above the legislated requirement to ensure that we have a high degree of confidence that our insurance fund will not fall below 100% funding.

4. Insurance funding risk

Insurance funding risk refers to the risk that the WSIB may be underfunded or overfunded relative to the level of funding necessary to maintain a high level of assurance that the Sufficiency Ratio does not fall below 100%. As of the end of Q2 2021, the WSIB's Sufficiency Ratio is at 119.5%. The risk of underfunding is projected to remain low if benefits remain unchanged, New Claim Costs ("NCC") continue to stabilize, and investment returns are in line with the WSIB's long-term return objective of earning at least 5% per annum (annualized) net of investment expenses.

To safeguard benefits and offer premium rate stability for employers, the WSIB must ensure that it can be financially sustainable and withstand economic shocks by managing insurance funding risk. For this reason, the WSIB has been reviewing its Funding Policy and the key parameters that govern funding and pricing decisions in conformance with the WSIB's insurance funding risk appetite statement. Additionally, the WSIB continues to consult with the government, with consideration given to recommendations from the Ontario government's operational review of the WSIB,[1] to establish a responsible reserve threshold above 100% funding.

Our mitigation of insurance funding risk includes, but is not limited to:

- Conducting regular modelling and monitoring of economic scenarios, including stress testing, to better understand the impact of economic risks and to determine the adequacy of our financial assumptions, budget updates, sufficiency planning, and rate setting;
- Determining benefit liabilities based on assumptions that gradually incorporate emerging experience, thus providing a relatively stable basis for pricing and sufficiency measurement;
- Monitoring for potential legislative changes that could impact benefit liabilities or costs;
- Conducting periodic asset-liability studies to ensure the WSIB's long-term return objective and asset mix policy remain relevant, with consideration of the impacts of economic and other risk factors on the funding position and desired level of funding;
- Assessing actual investment performance relative to the WSIB's return objective and asset mix policy; and
- Ensuring strong investment governance, effective diversification of assets, efficient cost structure and rigorous risk management of investment assets.

Although the COVID-19 pandemic continues to impact various sectors across the country, focused restrictions combined with increased vaccination rates have contributed to the reduction in the number of COVID-19 cases and have paved the way for economic recovery in the second half of 2021 through to 2022. Canada's labour market has also exhibited positive signs of improvement through employment gains concentrated in sectors where restrictions were most stringent along with increased part-time employment in several high-contact service industries. The stage is set for an acceleration in the labour market recovery over the coming months,[2] however, expectations will be moderated by the potential for subsequent waves of the pandemic due to new COVID-19 variants that may necessitate the reinstatement of lockdown measures in response. The Bank of Canada maintained its target for the overnight rate at 0.25%, recognizing that although the Canadian economy is on a path toward recovery, monetary policy support in light of the continued economic uncertainties is still required.

[1] Regner-Dykeman, Linda & Speer, Sean (2020, November 6), Workplace Safety and Insurance Board Operational Review Report
[2] The Conference Board of Canada, Reopening of the economy sparks restart of the labour market recovery:— July 9, 2021

Despite the business contraction in Ontario as a result of COVID-19, premium revenues are expected to increase throughout 2021. This expectation reflects growth in insurable earnings as a result of the vaccine rollout and expected recovery in the economy in 2021. For those employers participating in the financial relief package, the standard repayment period began on January 1, 2021 and ended June 30, 2021. With the ongoing impact of the pandemic still being felt by Ontario businesses, the WSIB is continuing to work with certain employers who have requested additional time for full repayment. The increase to financial risk as a result of COVID-19 has also been reflected in volatile investment returns. After generating a return of 0% in the first quarter, the Insurance Fund rebounded strongly to return +4.2% in the second quarter, with all asset classes contributing positively to performance, as the global economic recovery continued to be driven by accelerating vaccination programs across much of the developed world. Despite ongoing worries about higher inflation and elevated equity valuations, global equity markets performed well in the second quarter behind increasing optimism for a continued recovery and strong corporate fundamentals. Over the year-to-date period through June 30, the Insurance Fund also returned +4.2% led by Public Markets, Diversified Markets and Private Markets, which have returned +9.3%, +5.5% and +5.2%, respectively. Although Fixed Income rebounded strongly in the second quarter, over the year-to-date period, it has detracted from overall returns, with a return of -3.8% due to rising government bond yields earlier in the year

The WSIB has taken responsive actions to monitor, assess, and manage heightened risks by closely monitoring insurable earnings, premium revenues, claims developments, investment performance, liquidity, and operational cash flows. Additionally, stress tests have been conducted on a range of hypothetical scenarios including contraction of premium revenues and negative investment returns in order to assess impacts on liquidity and the Sufficiency Ratio. It is also important to note that the WSIB's funding sufficiency position is buffered from the impact of significant investment losses as investment losses (and gains) relative to the expected net long-term return objective are amortized over five years, reducing their immediate impact.

As well, in order to further mitigate liquidity risks and provide the WSIB with flexibility to manage uncertainties due to COVID-19, the WSIB established a revolving line of credit in the amount of $900 million with the Ontario Financing Authority for a 14-month period beginning in October 2020. As at June 30, 2021, $400 million was drawn against the revolving line of credit, of which $280 million has been repaid. The amount of the loan as at June 30, 2021 is $120 million. We will continue to pay $30 million at the beginning of each month until the loan is paid off.

The WSIB continues to maintain a stable liquidity position, and we remain confident in our ability to maintain sufficient funding to sustain benefits for injured workers. Management will continue to monitor emerging economic risk indicators and other developments in consideration of potential long-term adverse implications on employers and the Ontario economy, as well as WSIB operations, funding and investments.

While the WSIB monitors a portfolio of significant enterprise risks impacting our business, the insurance funding risk is the risk that is of greatest importance with respect to the WSIB's Second Quarter 2021 Sufficiency Report. A full discussion of the significant insurance funding risk factors that affect the WSIB's business and the corresponding mitigation approaches can be found in Section 14 of the Management Discussion and Analysis in the WSIB's Q4 2020 Results Report.

Sufficiency Ratio Statement
June 30, 2021
(millions of Canadian dollars)

Sufficiency Ratio Statement

	Note(s)	Jun. 30 2021	Dec. 31 2020
Total assets under IFRS	2,4	40,364	40,837
Add (Less): Asset adjustment	2	(1,473)	(849)
Less: Sufficiency Ratio non-controlling interests	2	(1,343)	(2,569)
Sufficiency Ratio assets		37,548	37,419
Sufficiency Ratio liabilities	3	31,430	31,893
Sufficiency Ratio (assets divided by liabilities)		**119.5%**	**117.3%**

The accompanying notes form an integral part of this Sufficiency Ratio Statement.

Notes to Sufficiency Ratio Statement
June 30, 2021
(millions of Canadian dollars)

1. Sufficiency Ratio – Impact of the COVID-19 pandemic

In order to derive the assets and liabilities used in the calculation of the Sufficiency Ratio, the consolidated financial statements of the WSIB prepared in accordance with International Financial Reporting Standards ("IFRS") have been adjusted as required by the Sufficiency Regulation.

During 2020, as a part of the effort to help reduce the financial burden of the COVID-19 pandemic, the WSIB, in partnership with the Government of Ontario, offered a financial relief package allowing employers to defer premium reporting and payments for the period from March 2020 until August 2020, with no interest or penalties accruing during the deferral period. The standard repayment period began on January 1, 2021 and ended June 30, 2021. With the ongoing impact of the pandemic still being felt by Ontario businesses, the WSIB is continuing to work with certain employers who have requested additional time for full repayment.

The WSIB continues to closely monitor developments related to the COVID-19 pandemic and its existing and potential impact on the WSIB's results and operations. Increased uncertainty has and could continue to impact financial results, as the duration of the COVID-19 pandemic, the effectiveness of steps undertaken by the government and vaccine efficacy remain uncertain.

Uncertainty exists in the estimates and assumptions used by the WSIB which include, but are not limited to, the recognition of an allowance for doubtful accounts for amounts outstanding under the financial relief package, the key unobservable inputs used in assessing the fair value of certain financial instruments and investment properties, the impairment assessment of investments in associates and joint ventures, the fair value of plan assets for the pension obligation and employee benefit plans, and the actuarial valuation of the benefit liabilities.

The WSIB has applied valuation techniques using estimates and assumptions that reflect information available when these unaudited condensed interim consolidated financial statements were prepared and management believes that the amounts recorded are appropriate. Changes in these key estimates and assumptions could materially impact the carrying values of the respective assets and liabilities.

2. Sufficiency Ratio assets

Assets used in the Sufficiency Ratio calculation that are invested in the financial markets are valued at fair value; however, only a portion of the investment gains or losses is included in the asset value. Specifically, the current period's investment returns above or below a net expected long-term annual return are deferred and recognized over the next five years on a straight-line basis. After five years, those past investment gains and losses are fully recognized in the asset value. This procedure moderates the effect of investment market return volatility and is known as the asset adjustment.

As at June 30, 2021, the Sufficiency Ratio assets reflected an asset adjustment total of $1,473 (December 31, 2020 – $849) from assets reported under IFRS. The total asset adjustment is comprised of the cumulative unrecognized investment returns in excess of the expected long-term annual rate of return assumption, net of investment expenses of $1,275; and the restricted cash balance of $198, which consists of funds received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit program.

Notes to Sufficiency Ratio Statement
June 30, 2021
(millions of Canadian dollars)

The development of the asset adjustment related to investments is detailed as follows:

	Dec.31 2017	**Dec.31 2018**	**Dec.31 2019**	**Dec.31 2020**	**Jun.30 2021**
Fair value of invested assets	33,996	34,872	38,959	38,271	38,137
Add (Less): Cash transfers in last month of period	(44)	(33)	8	12	136
Adjusted fair value of invested assets[1]	33,952	34,839	38,967	38,283	38,273
Less: Invested assets at expected rate of return[2]	32,200	36,807	36,324	38,658	37,572
Investment returns in excess of (lower than) expectations,[3] gain (loss)	1,752	(1,968)	2,643	(375)	701
Add (Less): Unrecognized investment returns at prior period end	779	1,720	(423)	1,686	849
Total unrecognized investment gains (losses)	**2,531**	**(248)**	**2,220**	**1,311**	**1,550**
Amount to be recognized from:					
2021 investment gain	-	-	-	-	70
2020 investment loss	-	-	-	(75)	(38)
2019 investment gain	-	-	528	529	264
2018 investment loss	-	(393)	(394)	(394)	(196)
2017 investment gain	350	351	351	350	175
2016 investment gain	52	52	52	52	-
2015 investment loss	(3)	(4)	(3)	-	-
2014 investment gain	169	169	-	-	-
2013 investment gain	243	-	-	-	-
***Less*: Total recognized investment gains in current period**	**811**	**175**	**534**	**462**	**275**
Total unrecognized investment gains (losses) at end of period[4]	**1,720**	**(423)**	**1,686**	**849**	**1,275**

1. Represents the fair value of invested assets at the end of the period, less the last month's cash contributions (withdrawals), assuming the cash was contributed (withdrawn) at the end of the month.
2. The expected fair value of invested assets is calculated based on an expected long-term annual rate of return on the ending total invested assets balance as of the last reporting period and cash transfers during the period. The net long-term return objective is reviewed annually and has been as follows:

Year	2017	2018	2019	2020	2021
Net long-term return objective, annualized	4.75%	4.75%	4.75%	5.00%	5.00%

3. Calculated as the difference between the expected and actual fair value of invested assets, representing the unrecognized investment returns above (below) the net long-term return objective.
4. Unrecognized investment returns less recognized investment returns in the current period.

Notes to Sufficiency Ratio Statement
June 30, 2021
(millions of Canadian dollars)

The amount of unrecognized investment returns to be recognized in future years is as follows:

		Investment returns to be recognized in future years:				
Year earned	**Total unrecognized gains(losses) as at June 30, 2021**	**Remainder of 2021**	**2022**	**2023**	**2024**	**2025**
2021	631	(70)	(140)	(141)	(140)	(140)
2020	(262)	37	75	75	75	-
2019	1,322	(265)	(528)	(529)	-	-
2018	(591)	197	394	-	-	-
2017	175	(175)	-	-	-	-
	1,275	**(276)**	**(199)**	**(595)**	**(65)**	**(140)**

A similar asset adjustment is applied on the non-controlling interests. The adjustment to the non-controlling interests is detailed as follows:

	Jun. 30 2021	**Dec. 31 2020**
Fair value of non-controlling interests[1]	**1,385**	2,502
Add (Less): Asset adjustment	**(42)**	67
Sufficiency Ratio non-controlling interests	**1,343**	2,569

1. The decrease in fair value of non-controlling interests is mainly related to the derecognition of $1.2 billion of the Employee's Pension Plan's proportionate share of net assets, as a result of strategic changes in WSIB's investment portfolio during the quarter.

3. Sufficiency Ratio liabilities

The Sufficiency Ratio liabilities were prepared under a going concern basis and were calculated as follows:

- Benefit liabilities were determined in accordance with IFRS. Liabilities were calculated by an actuarial valuation with a discount rate of 4.75% (December 31, 2020 – 4.75%) per annum, as described in note 20 of the WSIB's 2020 annual consolidated financial statements.
- Loss of Retirement Income Fund liability was determined in accordance with IFRS. The liability is equal to the fair value of assets held.
- Employee benefit plans liability was determined using methods and assumptions that are consistent with accepted actuarial practice for going concern valuations. Obligations were calculated by an actuarial valuation with a discount rate of 5.00% (December 31, 2020 – 5.00%) per annum, consistent with the net expected long-term annual rate of return on the registered pension plan assets. This differs from the IFRS basis used in preparing the WSIB's consolidated financial statements. The IFRS discount rate, a weighted average of 3.15% (December 31, 2020 – 2.60%) per annum, was determined by reference to high-quality corporate bonds and the projected employee benefit payment cash flows.
    - The result was a reduction from the IFRS obligations equal to $1,350 (December 31, 2020 – $2,118).
- Payables and other liabilities were adjusted by $198 to reflect the balance of restricted cash received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit program and which remains unpaid.
- All other liabilities were determined in accordance with IFRS.

Notes to Sufficiency Ratio Statement
June 30, 2021
(millions of Canadian dollars)

The Sufficiency Ratio liabilities are $31,430 (December 31, 2020 – $31,893), which includes the adjustment total of $1,548 (December 31, 2020 – $2,118). The total liabilities adjustment is comprised of the employee benefit plans liability reduction of $1,350; and $198 which reflects restricted funds received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit program and which remain unpaid. Additional details of the breakdown of the liabilities are shown in note 4.

Notes to Sufficiency Ratio Statement
June 30, 2021
(millions of Canadian dollars)

4. Reconciliation of the Sufficiency Ratio assets and liabilities to the consolidated financial statements prepared in accordance with IFRS

A reconciliation of the assets and liabilities used for the calculation of the Sufficiency Ratio to those under IFRS as at June 30, 2021 is provided below. The unaudited condensed interim consolidated statements of financial position presented on an IFRS basis are from the WSIB's unaudited condensed interim consolidated financial statements. Explanatory notes follow the reconciliation below.

	June 30, 2021			December 31, 2020		
	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis
Assets						
Cash and cash equivalents	2,190	(198)[1]	1,992	4,969	-	4,969
Receivables and other assets	1,295	-	1,295	2,171	-	2,171
Investments	36,571	(1,275)[2]	35,296	33,362	(849)[2]	32,513
Property, equipment and intangible assets	308	**-**	**308**	335	-	335
Total assets	**40,364**	**(1,473)**	**38,891**	**40,837**	**(849)**	**39,988**
Liabilities						
Payables and other liabilities	1,413	(198)[1]	1,215	1,696	-	1,696
Borrowings	120	-	120	400	-	400
Derivative liabilities	284	-	284	92	-	92
Long-term debt and lease liabilities	171	-	171	175	-	175
Loss of Retirement Income Fund liability	2,032	-	2,032	2,003	-	2,003
Employee benefit plans liability	2,009	(1,350)[3]	659	2,735	(2,118)[3]	617
Benefit liabilities	26,949	-	26,949	26,910	-	26,910
Total liabilities	**32,978**	**(1,548)**	**31,430**	**34,011**	**(2,118)**	**31,893**
Net assets						
Reserves	6,085	117	6,202	5,167	1,202	6,369
Accumulated other comprehensive loss	(84)	-	(84)	(843)	-	(843)
Net assets attributable to WSIB stakeholders	**6,001**	**117**	**6,118**	**4,324**	**1,202**	**5,526**
Non-controlling interests	1,385	(42)[2]	1,343	2,502	67[2]	2,569
Total net assets	**7,386**	**75**	**7,461**	**6,826**	**1,269**	**8,095**
Total liabilities and net assets	**40,364**	**(1,473)**	**38,891**	**40,837**	**(849)**	**39,988**
Sufficiency Ratio			**119.5%**			**117.3%**

1. Reflects the restricted cash balance consisting of funds received from the Government of Ontario for the purposes of administering the COVID-19 Worker Income Protection Benefit Program on behalf of the Government of Ontario.
2. Reflects the asset adjustment of our invested assets shown on our unaudited condensed interim consolidated statements of financial position at the net long-term annual return objective of 5.00% (December 31, 2020 – 5.00%), resulting in a decrease of $1,275 (December 31, 2020 – $849), which includes the interests in those assets held by third parties (non-controlling interests) of $42 (December 31, 2020 – increase of $67).
3. Reflects the use of a going concern discount rate of 5.00% (December 31, 2020 – 5.00%). For the purposes of the unaudited condensed interim consolidated financial statements, an accounting weighted average discount rate of 3.15% was used as at June 30, 2021 (December 31, 2020 – 2.60%). The accounting discount rate was determined by reference to high-quality corporate bonds and the projected employee benefit payments from the various employee benefit plans.