WORKPLACE SAFETY & INSURANCE BOARD

2016 SUFFICIENCY REPORT TO STAKEHOLDERS

wsib
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President and CEO's Message

It is my pleasure to present the Workplace Safety and Insurance Board's (the "WSIB") 2016 Sufficiency Report to Stakeholders.

As of December 31, 2016, we have reduced the unfunded liability (the "UFL") on a Sufficiency Ratio basis by $3.0 billion to $4.0 billion, corresponding to an increase in the Sufficiency Ratio from 77.9% as of December 31, 2015 to 87.4% as of December 31, 2016. The investment portfolio has also increased by $3.3 billion, to $28.6 billion on a Sufficiency Ratio basis as of December 31, 2016.

These results demonstrate that the WSIB is on track to improved financial sustainability and is ahead of schedule in meeting its statutory responsibility to ensure that the Province of Ontario's (the "Province") workplace compensation system remains financially viable.

In addition to working to improve our financial performance, the WSIB is committed to improving outcomes for injured workers.

In 2016, 92% of injured workers continued to return to work within 12 months with no wage loss. This metric is critical for telling us how many workers who were off work have actually returned, at full pre-injury wages.

I am pleased to report that injured worker and employer satisfaction with their overall WSIB experience has increased compared to last year. In the fourth quarter of 2016, 71% of injured workers and 77% of employers were satisfied compared to 69% and 74%, respectively, in the fourth quarter of 2015. Improving service excellence to employers and injured workers alike continues to be a focus for the WSIB going forward.

As we conclude financial reporting for 2016, I am proud to say that this quarter and the entire year brought positive results for the WSIB as we come closer to achieving our goal of becoming financially sustainable so that we can continue to support the Province's injured workers into the future.

Thomas Teahen
President and Chief Executive Officer
April 27, 2017
Toronto, Ontario

Management's Responsibility for Financial Reporting

The Sufficiency Ratio and related notes (the "Sufficiency Statement"), and the Sufficiency Discussion and Analysis (collectively, the "Sufficiency Report to Stakeholders"), have been prepared by management and approved by the Board of Directors of the WSIB. The Sufficiency Ratio calculation has been prepared in accordance with the accounting policies described in note 2 to the Sufficiency Statement, pursuant to *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. Where alternative accounting methods exist, management has chosen those methods considered most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the Sufficiency Statement within reasonable limits of materiality, and internal controls. Management is also responsible for the preparation and presentation of additional financial information in the Annual Report and ensuring its consistency with the Sufficiency Statement.

The Audit and Finance Committee of the Board of Directors meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities, and reviews the Sufficiency Statement and the Independent Auditors' Report. 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 pursuant to Section 170 (1) of the WSIA.

The Sufficiency Statement has been audited by the WSIB's independent auditors, Ernst & Young LLP, and their report is provided herein.

Thomas Teahen
President and Chief Executive Officer
April 27, 2017
Toronto, Ontario

Pamela Steer
Chief Financial Officer

Sufficiency Discussion and Analysis

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1. Overview

An explanation of our regulations.

The following Sufficiency Discussion and Analysis should be read in conjunction with the audited consolidated financial statements and accompanying notes of the WSIB as at and for the year ended December 31, 2016 (the “consolidated financial statements”) and the audited Sufficiency Ratio and accompanying notes of the WSIB as at December 31, 2016 (the “Sufficiency Statement”).

The Sufficiency Ratio measures whether there are sufficient funds to meet the WSIB's future projected claims payouts. The WSIB reports its Sufficiency Ratio pursuant to *Subsection 1 (3)* of *Ontario Regulation 141/12*, as amended by *Ontario Regulation 338/13* (collectively, the “Ontario Regulations”). Under the Ontario Regulations, the values of our assets and liabilities are determined using actuarial valuations that are consistent with accepted actuarial practices for going concern valuations.

Specific definitions for a number of terms in this Sufficiency Report to Stakeholders can be found in subsection 7.

2. Year in Review

A discussion of our performance for the year ended December 31, 2016 and the effect on our Sufficiency Ratio.

The Sufficiency Ratio increased to 87.4% as at December 31, 2016 from 77.9% as at December 31, 2015, an increase of 9.5%. The increase is primarily attributable to employer premiums used to reduce the deficit, better than expected investment returns, and lower than expected claim costs. The liabilities used in the Sufficiency Ratio calculation increased to $31.9 billion at December 31, 2016, an increase of $224 million from the previous year end. The assets used in the Sufficiency Ratio calculation increased to $27.9 billion at December 31, 2016, an increase of $3.2 billion from December 31, 2015.

The assets used in the Sufficiency Ratio calculation are smoothed over a five-year period, to moderate the effect of investment market volatility. Specifically, the investment gains and losses above the net investment return objective of 5.25% per annum are amortized over a five-year period. After five years, all investment gains and losses are fully recognized in the asset value.

Effective January 1, 2017, the long-term net investment return objective was reduced from 5.25% per annum to 4.75% per annum subsequent to the annual review by the Investment Committee and approved by the Board of Directors at the end of 2016.

The Insurance Fund Ratio increased to 89.3% as at December 31, 2016 from 79.8% as at December 31, 2015, an increase of 9.5%. The increase is primarily attributable to employer premiums used to reduce the deficit, better than expected investment returns, and lower than expected claim costs. The Insurance Fund liabilities increased to $31.2 billion at December 31, 2016, an increase of $317 million from December 31, 2015. The assets used in the Insurance Fund Ratio calculation increased to $27.9 billion at December 31, 2016, an increase of $3.2 billion from December 31, 2015.

The Employee Benefit Plans Ratio increased to 81.2% as at December 31, 2016 from 77.8% as at December 31, 2015, an increase of 3.4%. The increase is primarily attributable to better than expected investment returns and favourable plan experience. The Employee Benefit Plans obligations are $3.5 billion, and the assets used in the Employee Benefit Plans Ratio calculation are $2.9 billion as at December 31, 2016.

3. The Sufficiency Ratio Calculation Methodology

A description of the components of the Sufficiency Ratio calculation.

As required by the Ontario Regulations, we calculate our Sufficiency Ratio by comparing assets on hand to total estimated liabilities, as measured on a sufficiency basis. This fundamental measure is comparable with the methods used by other Canadian workers' compensation boards and as reported by the Association of Workers' Compensation Boards of Canada to measure the adequacy of funding and is a measure used by leading pension plans around the world. However, a standard definition for Sufficiency Ratio does not exist.

As at December 31, 2016, we had a deficit of $4.0 billion on a Sufficiency Ratio basis, which means our liabilities on a Sufficiency Ratio basis (the estimated present value of future benefit payments) exceeded the assets. Expressed in percentage terms, we had 87.4% of the assets required to meet our future benefit obligations.

Sufficiency Ratio Calculation Policies

Set forth below is a summary of the accounting policies used to calculate our Sufficiency Ratio as at December 31, 2016 and December 31, 2015 based on our interpretation of the Ontario Regulations.

Assets

The assets included in the Sufficiency Ratio are calculated with reference to our total assets shown on our consolidated statements of financial position. The total assets are adjusted to reflect measurement on a going concern basis. On a going concern basis, invested assets are valued at fair value adjusted for the unamortized gains or losses relative to the long-term annual investment return objective on those assets, less the interests in those assets held by third parties (non-controlling interests). The adjustment to deduct assets held by third parties is necessary as our assets include portions of investments to which third parties ultimately have rights (including the assets of the WSIB Employees' Pension Plan) and therefore would not be appropriate to include in our Sufficiency Ratio. See note 2 to the Sufficiency Statement for further discussion.

Liabilities

The liabilities included in the Sufficiency Ratio are calculated as our total liabilities shown on our consolidated statements of financial position, adjusted to reflect valuations of the Employee Benefit Plans liabilities on a going concern basis rather than a market basis. See note 2 to the Sufficiency Statement for further discussion.

4. Our Funding Strategy

A discussion of our funding strategy and how we plan to increase the Sufficiency Ratio.

In accordance with *Ontario Regulation 141/12*, the WSIB submitted the Sufficiency Plan Update 2016 to the Minister of Labour in June 2016 describing the measures being taken by the WSIB to improve the Sufficiency Ratio and how these measures will achieve the prescribed ratios. See note 1 to the Sufficiency Statement for further discussion.

To meet our Sufficiency Ratio requirements, 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 absorb benefit costs, administration and other expenses and provide an allocation towards the retirement of the unfunded liability. We have been managing our operations in this manner since early 2011, resulting in premium revenues exceeding cash operating expenses over this time period. In addition, as a result of employer premiums reducing the deficit, favourable claims experience, and investment returns, we were able to make demonstrable progress towards retiring the unfunded liability.

As we approach the goal of 100% funding, we have refined our strategy to ensure at an appropriate confidence level that the Insurance Fund can withstand future economic shocks and remains at a stable level of funding. As a result, our Funding Policy requires the Chief Actuary to advise the WSIB as to the margin of prudence that should be maintained over and above the legal requirement to be 100% funded, currently assessed as a range between 115% to 125% Sufficiency Ratio. This prudent level of funding is referred to as “Full Funding”. See subsection 6 for further discussion.

5. Supplemental Measures

Supplemental measures to assess our financial condition.

In addition to the Sufficiency Ratio, we also assess risks and sustainability by monitoring our Insurance Fund Ratio and the Employee Benefit Plans Ratio as noted below:

Insurance Fund Ratio

The Insurance Fund Ratio excludes the net deficit of the Employee Benefit Plans in order to provide a measure of the WSIB’s insurance operations and is calculated as follows:

(millions of Canadian dollars)	December 31 2016	December 31 2015
Insurance Fund assets on the Sufficiency Ratio basis	27,953	24,736
Less: Non-controlling interests in investments	(96)	(83)
Insurance Fund assets	**27,857**	**24,653**
Total liabilities on the Sufficiency Ratio basis	31,861	31,637
Less: Employee Benefit Plans deficit on the Sufficiency Ratio basis	(664)	(757)
Insurance Fund liabilities	**31,197**	**30,880**
Insurance Fund deficit	**(3,340)**	**(6,227)**
Insurance Fund Ratio (assets divided by liabilities)	**89.3%**	**79.8%**

The Insurance Fund Ratio increased to 89.3% as at December 31, 2016, an increase of 9.5% from December 31, 2015. The increase is primarily attributable to employer premiums used to reduce the deficit, better than expected investment returns, and lower than expected claim costs.

Employee Benefit Plans Ratio

The Employee Benefit Plans of the WSIB are a component of total compensation for the WSIB’s permanent employees. The Employee Benefit Plans Ratio provides a measure of the sufficiency of the Employee Benefit Plans.

The Employee Benefit Plans Ratio is calculated as follows:

(millions of Canadian dollars)	December 31 2016	December 31 2015
Employee Benefit Plans assets on the Sufficiency Ratio basis	2,867	2,646
Employee Benefit Plans obligation on the Sufficiency Ratio basis	3,531	3,403
Employee Benefit Plans deficit	**(664)**	**(757)**
Employee Benefit Plans Ratio (assets divided by obligation)	**81.2%**	**77.8%**

The Employee Benefit Plans Ratio increased to 81.2% as at December 31, 2016, an increase of 3.4% from December 31, 2015. The increase is primarily attributable to better than expected investment returns and favourable plan experience.

6. Insurance Funding Risk

A discussion of the more significant risk factors affecting our business.

Insurance Funding Risk is the risk that the WSIB's funded status falls short of Ontario Regulations due to insufficient premium revenue to cover costs or increases in the benefit liability and/or insufficient investment revenue arising from unanticipated and prolonged adverse returns.

While we take great care in preparing financial forecasts, actual results will vary due to evolving economic conditions and other factors such as changes to legislation or changes in the workplace that could expose us to unanticipated losses. For example, an economic downturn could lead to reductions in overall insured payroll or adverse investment returns. In addition, new injured worker benefit entitlements may emerge and constraints over premium rate adjustments could adversely affect the trajectory to Full Funding.

Our mitigation plan addresses specific drivers of Insurance Funding Risk accordingly. We perform annual and event driven testing of our assumptions and take steps to ensure we remain on the path to Full Funding.

Premium rates setting and benefit liabilities determination

The WSIB, as the board-governed trust agency under the Agencies and Appointments Directive responsible for administering the Province's injured worker compensation system, must utilize prudent assumptions during the premium rates setting process to ensure that the provision of funds is adequate to cover all future costs for injuries arising in each injury year.

Benefit liabilities, reflecting the ultimate benefits to be paid on reported and unreported claims, are calculated using sound actuarial practices to estimate costs based on a number of factors.

Establishing an appropriate level of benefit liabilities is an inherently uncertain process which presents a number of risks that could adversely affect our comprehensive income and financial condition.

Potential events that could contribute to this risk include:

- economic depression in Ontario with attendant reduction in overall insured payroll;
- significant increases in legislated injured worker benefit entitlements; and
- fundamental error in premium rate calculation, in estimate of industry/sector payroll level and/or in estimate of incident/duration of claims.

We mitigate this risk by:

- utilizing both proprietary and commercially available actuarial models and assessing historical loss development patterns and other predictive analytics;
- basing annual pricing analysis on assumptions that explicitly contain margins when compared to recent experience;
- modeling economic scenarios to better understand the impact of economic risks and to determine the adequacy of our financial assumptions;
- continuing to invest in prevention, recovery and return-to-work efforts and closely monitoring their performance;
- determining benefit liabilities based on assumptions that gradually incorporate emerging experience, thus providing a relatively stable basis for pricing and sufficiency measurement;
- monitoring claims management efficiency by the Benefit Payments Analysis Committee and regular, ongoing reviews and re-evaluation of claims and their impact on the estimate of the benefit liability by internal actuaries;
- engaging independent actuaries annually to review actuarial assumptions and methodologies in establishing benefit liabilities and premium rates;
- reviewing actuarial related matters at regular meetings with our Actuarial Advisory Committee; and
- monitoring potential legislative changes, including offering an assessment of the financial implications of any such changes.

Investment risk

Our ability to meet our long-term obligations is dependent upon the sufficiency of our investment fund. Our primary investment risk is that investment fund and returns, taken together with a reasonable and sustainable level of contributions, are insufficient to meet the long-term obligations for which the investment fund is established. The risk that significant and prolonged adverse investment returns, unexpected changes in investment market conditions, inappropriate assumptions or model flaws in the determination of strategic asset allocation with the failure or inability to approve required premium rates to mitigate these risks may result in the failure to meet the legislated Sufficiency Ratio requirements established in Ontario Regulations.

We mitigate this risk by:

- regular assessment of actual investment performance relative to expectations of our strategic asset allocation and benchmarks stipulated in our investments benchmarks and rebalancing policy, which is approved at least annually by the Investment Committee;
- executing the Strategic Investment Plan to ensure strong investment governance, effective diversification of assets, efficient cost structure and rigorous risk management of the investment portfolio;
- diversifying investment return sources as provided for in our Statements of Investment Policies and Procedures, which are presented annually to the Board of Directors for their approval;
- conducting periodic Asset-Liability Studies and implementing comprehensive investment risk model; and

- integrating and coordinating investment and other work streams pertinent to solvency/ funded status through an Asset-Liability Risk Management (“ALRM”) Committee made up of senior executives across the organization.

Economic conditions and labour market changes

Given our mandate to deliver a no-fault insurance plan, funded predominantly by premium revenues, we are inherently subject to economic risks, which include:

- low or modest growth in the Province’s employment levels, especially in covered industries, could pose a risk to meeting premium revenue targets as well as limiting work transition opportunities;
- the changing nature of work and employment relationships could challenge the traditional workers’ compensation business model;
- the growth in industries that are not required to have coverage under the WSIA could pose a risk to the sustainability of the compensation system;
- the trend toward casual, part-time and temporary work (non-standard work) may result in return to work challenges and, therefore, longer duration on benefits; and
- the growing number of older workers in the workforce as older workers may have challenges with return to work.

We mitigate these risks by:

- coordinating asset-liability management processes including consideration of the impacts of economic and other risk factors on the funding position and desired level of funding;
- conducting annual scenario planning and stress testing as part of budget updates, sufficiency planning, rate setting and other financial modelling;
- reviewing economic forecasts and analysis prepared by the Conference Board of Canada to project the level of future insurable earnings and employment levels within our key industries and report significant deviations between forecasts and actuals to the ALRM Committee and suggest corrective action;
- continuous monitoring and researching of the job market for available, sustainable positions for injured workers who are ready to transition back to the job market; and
- strengthening our return to work and health care programs to support recovery and sustainable return to work.

Regulatory, political and other influences

Our business is subject to changing legal, regulatory and other influences. Any amendments to the WSIA or other legislation could require us to make adjustments to our business processes. Changes may require the dedication of our resources to implement new systems or processes. Further, political and stakeholder influences and competing interests may impact our ability to make timely changes to policy or operational programs and processes, or may introduce new changes not planned or contemplated by the WSIB.

We mitigate these risks by:

- engaging with the Ministry of Labour to determine the potential impact to outcomes and capacity;
- accurately costing any legislative or regulatory changes to ensure that the impact of any change is fully understood;

- consulting with stakeholders as appropriate, such as for WSIB-initiated regulatory changes, as well as any substantive changes to our operational policies;
- ensuring that any changes to existing policies and programs are developed and implemented to align with our value propositions and organizational capabilities; and
- operating an integrated compliance framework to proactively identify legislative changes and monitor ongoing compliance.

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 16 of the Management's Discussion and Analysis in our 2016 Annual Report.

With our Sufficiency Ratio at 87.4% as at December 31, 2016, we have a very low risk of not having a 60% funding requirement as at December 31, 2017.

Once the regulated Sufficiency Ratio requirements as set out in *Ontario Regulation 141/12* are attained, the WSIB plans to target Full Funding at a Sufficiency Ratio in the range of 115% to 125% in order to have a high level of confidence that we can maintain the regulated Sufficiency Ratio requirement (100%) when faced with periods of negative economic conditions.

7. Definitions

A glossary of the terms utilized in this report.

- **“Employee Benefit Plans”** refer to the long-term benefit plans offered to permanent employees of the WSIB. They include pension and other post-employment benefit plans which include life insurance, dental and extended health coverage.
- **“Employee Benefit Plans Ratio”** refers to the ratio of the Employee Benefit Plans assets to the Employee Benefit Plans liabilities as presented in the Sufficiency Statement, and is expressed as a percentage.
- **“Enhanced Assurance”** represents a high degree of confidence in achieving the regulated Sufficiency Ratio requirements and maintaining Full Funding once reached, as determined by periodic asset-liability studies.
- **“Full Funding”** represents the level of funding sufficiency that provides Enhanced Assurance that the Sufficiency Ratio will not fall below 100%. The WSIB plans to target a Sufficiency Ratio in the range of 115% to 125%.
- **“Funding Ratio”** refers to the ratio of total assets of the WSIB, less non-controlling interests, to the total liabilities of the WSIB, as presented in the WSIB’s consolidated financial statements prepared according to International Financial Reporting Standards (“IFRS”), and is expressed as a percentage.
- **“Investment Portfolio on Sufficiency Ratio basis”** refers to the investment portfolio after reflecting valuation adjustments calculated on a going concern basis, and is presented in accordance with *Ontario Regulation 338/13*.
- **“Insurance Fund”** refers to the assets and liabilities of the WSIB, excluding the assets and obligations of the Employee Benefit Plans.
- **“Insurance Fund Ratio”** refers to the ratio of Insurance Fund assets, less non-controlling interests, to Insurance Fund liabilities, as presented in the Sufficiency Statement, and is expressed as a percentage.
- **“Non-controlling Interests”** refer to the WSIB Employees’ Pension Plan and other investors’ proportionate interest of the net assets and comprehensive income of the WSIB’s subsidiaries.
- **“Sufficiency Ratio”** refers to the ratio of total assets of the WSIB, less non-controlling interests, divided by the total liabilities of the WSIB, which reflect investments and pension liabilities calculated on a going concern basis, and is presented in accordance with *Ontario Regulation 338/13*, and is expressed as a percentage.
- **“Sufficiency Statement”** refers to the statement that presents the Sufficiency Ratio, Insurance Fund Ratio, and Employee Benefit Plans Ratio. The basis of accounting for the Sufficiency Ratio is found in note 2 of the Sufficiency Statement.

RESPONSIBILITY FOR REPORTING OF SUFFICIENCY RATIO

Role of Management

The accompanying Sufficiency Ratio and related notes (the "Sufficiency Statement") are the responsibility of the management of the Workplace Safety and Insurance Board (the "WSIB") and have been prepared in accordance with the basis of accounting described in note 2, pursuant to *Ontario Regulation 141/12* made under the WSIA, as amended by *Ontario Regulation 338/13* which became effective January 1, 2014. The calculation of the Sufficiency Ratio includes amounts based on management's best estimates and judgments.

Management is responsible for the preparation of the Sufficiency Statement in accordance with the basis of accounting described in note 2, and for such internal control as management determines is necessary to enable the preparation of the Sufficiency Statement to be free from material misstatement, whether due to fraud or error. The Audit and Finance Committee of the Board of Directors ensures management fulfills these responsibilities. The Audit and Finance Committee meets periodically with management, the internal auditors, and external auditors to ensure their responsibilities are properly discharged with respect to the application of critical accounting policies, consolidated financial statement presentation, disclosures, and recommendations on internal control.

Role of the External Auditors

The external auditors, Ernst & Young LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the Sufficiency Statement of the WSIB in accordance with the basis of accounting described in note 2. In carrying out their audit, the external auditors make use of the work of the Chief Actuary and his report on the Insurance Fund liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The independent auditors' report outlines the scope of their audit and their opinion.

Thomas Teahen
President and Chief Executive Officer
April 27, 2017
Toronto, Ontario

Pamela Steer
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Workplace Safety and Insurance Board,
The Minister of Labour and the Auditor General of Ontario

We have audited the accompanying Sufficiency Ratio of the **Workplace Safety and Insurance Board** (the "WSIB") as at December 31, 2016 and a summary of significant accounting policies and other explanatory information (the "Sufficiency Statement"). The Sufficiency Statement has been prepared by management using the basis of accounting described in note 2.

Management's Responsibility for the Sufficiency Statement

Management is responsible for the preparation and fair presentation of this Sufficiency Statement in accordance with the basis of accounting described in note 2; this includes determining that the basis of accounting is an acceptable basis for the preparation of the Sufficiency Statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of the Sufficiency Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the Sufficiency Statement based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Sufficiency Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Sufficiency Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Sufficiency Statement, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the Sufficiency Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Sufficiency Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Sufficiency Statement presents fairly, in all material respects, the Sufficiency Ratio of the WSIB as at December 31, 2016 in accordance with the basis of accounting described in note 2.

Basis of accounting

Without modifying our opinion, we draw attention to note 2 to the Sufficiency Statement, which describes the basis of accounting. The Sufficiency Statement is prepared to provide information regarding the Sufficiency Ratio of the WSIB. As a result, the Sufficiency Statement may not be suitable for another purpose.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 27, 2017

Sufficiency Statement
December 31, 2016
(millions of Canadian dollars)

Sufficiency Ratio

	December 31 2016	December 31 2015
Sufficiency Ratio assets (note 3)	30,712	27,324
Less: Non-controlling interests (note 3)	(2,855)	(2,671)
	27,857	24,653
Divided by: Sufficiency Ratio liabilities (note 3)	31,861	31,637
Sufficiency Ratio	**87.4%**	**77.9%**

Supplemental Ratios

Insurance Fund Ratio

	December 31 2016	December 31 2015
Insurance Fund assets on the Sufficiency Ratio basis (note 5)	27,953	24,736
Less: Non-controlling interests	(96)	(83)
	27,857	24,653
Divided by: Insurance Fund liabilities on the Sufficiency Ratio basis (note 5)	31,197	30,880
Insurance Fund Ratio	**89.3%**	**79.8%**

Employee Benefit Plans Ratio

	December 31 2016	December 31 2015
Employee Benefit Plans assets on the Sufficiency Ratio basis (note 6)	2,867	2,646
Divided by: Employee Benefit Plans obligation on the Sufficiency Ratio basis (note 6)	3,531	3,403
Employee Benefit Plans Ratio	**81.2%**	**77.8%**

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

Notes to Sufficiency Statement
December 31, 2016

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Notes to Sufficiency Statement
December 31, 2016
(millions of Canadian dollars)

1. Governing Regulation

Ontario Regulation 141/12 under the WSIA came into force on January 1, 2013 and requires the WSIB to calculate a Sufficiency Ratio of the Insurance Fund and ensure the Sufficiency Ratio meets the prescribed ratios 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 of the Insurance Fund shall be calculated by dividing the value of the Insurance Fund assets, as determined by the WSIB based on the long-term annual investment return objective, by the value of the Insurance Fund liabilities, as determined by the WSIB's Chief Actuary in an actuarial valuation.

2. Summary of Significant Accounting Policies

The consolidated financial statements of the WSIB prepared in accordance with IFRS have been adjusted for the items that follow, to derive the assets and liabilities used in the calculation of the Sufficiency Ratio in accordance with the Ontario Regulations.

Assets

Assets for the purposes of the Sufficiency Ratio calculation have been determined by the WSIB to consist of the total consolidated assets of the WSIB. The amounts presented are adjusted to reflect measurement on a going concern basis. On a going concern basis, the investment portfolio is at fair value adjusted for the unamortized gains or losses relative to the long-term annual net investment return objective on those assets, less the interests in those assets held by third parties, as represented by the balance of non-controlling interests. See note 4 for further discussion.

Liabilities

Liabilities for the purposes of the Sufficiency Ratio have been determined as follows:

The Insurance Fund liabilities include benefit liabilities which represent the actuarially determined present value of estimated future payments for reported and unreported claims incurred on or prior to the reporting date, including claims in respect of occupational diseases and posttraumatic stress disorders that are currently recognized by the WSIB. The measurement of benefit liabilities requires the actuary to make estimates and assumptions for a number of factors, including those for claim duration, mortality rates, wage escalation, general inflation and discount rates. Benefit liabilities are described in note 13 of the WSIB's 2016 consolidated financial statements.

Notes to Sufficiency Statement
December 31, 2016
(millions of Canadian dollars)

Employee Benefit Plans consist of pension, post-employment benefits, and long-term benefits plans. The Employee Benefit Plans obligation was determined through an actuarial valuation using the going concern basis, which assumes the plans will continue indefinitely. The going concern discount rate of 5.20% was determined with reference to the long-term annual investment return objective of the registered pension plan assets and the WSIB's investment strategy. This differs from the accounting basis used in preparing the WSIB's consolidated financial statements. The accounting discount rate, a weighted average of 3.90%, was determined by reference to high quality corporate bonds and the projected employee benefit payment cash flows from the various plans.

Also, significant impacts on liabilities that result from changes in legislation or actuarial or accounting standards are amortized over a reasonable period based on the size of their impact and their relation to the regulated sufficiency requirements, such period not to exceed five years.

All other liabilities are determined on an accounting basis as recorded in the WSIB's 2016 consolidated financial statements.

3. Reconciliation of the Sufficiency Ratio Assets and Liabilities to the Consolidated Financial Statements Prepared in Accordance with IFRS

A reconciliation of the total assets and liabilities used for the calculation of the Sufficiency Ratio to those under IFRS as at December 31, 2016 is provided on the following page. The consolidated statements of financial position presented on an IFRS basis are from the WSIB's consolidated financial statements. Explanatory notes follow the reconciliation on the following page.

Notes to Sufficiency Statement
December 31, 2016
(millions of Canadian dollars)

	December 31, 2016			December 31, 2015		
	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis
Assets						
Cash and cash equivalents	2,496	-	2,496	1,581	-	1,581
Receivables	1,644	-	1,644	1,614	-	1,614
Investments	27,035	(779)[1]	26,256	24,826	(981)[1]	23,845
Property, equipment and intangible assets	316	-	316	284	-	284
Total assets	**31,491**	**(779)**	**30,712**	**28,305**	**(981)**	**27,324**
Liabilities						
Payables and accruals	1,112	-	1,112	1,077	-	1,077
Derivative liabilities	243	-	243	133	-	133
Long-term debt	132	-	132	116	-	116
Loss of Retirement Income Fund liability	1,790	-	1,790	1,724	-	1,724
Employee benefit plans liability	1,290	(626)[2]	664	1,222	(465)[2]	757
Benefit liabilities	27,920	-	27,920	27,830	-	27,830
Total liabilities	**32,487**	**(626)**	**31,861**	**32,102**	**(465)**	**31,637**
Deficiency of assets						
Unfunded liability attributable to WSIB stakeholders	(3,925)	(79)	(4,004)	(6,599)	(385)	(6,984)
Non-controlling interests	2,929	(74)[1]	2,855	2,802	(131)[1]	2,671
Total deficiency of assets	**(996)**	**(153)**	**(1,149)**	**(3,797)**	**(516)**	**(4,313)**
Total liabilities & deficiency of assets	**31,491**	**(779)**	**30,712**	**28,305**	**(981)**	**27,324**
Funding Ratio	87.9%		-	79.4%		-
Sufficiency Ratio	-		87.4%	-		77.9%
Insurance Fund Ratio	91.6%		89.3%	82.6%		79.8%
Employee Benefit Plans Ratio	69.5%		81.2%	69.3%		77.8%

1. Reflects the valuation adjustment of our total assets shown on our consolidated statements of financial position at the long-term annual net investment return objective of 5.25% (2015 – 6.0%) resulting in a decrease of $779 (2015 – $981), which includes the interests in those assets held by third parties (non-controlling interests) of $74 (2015 – $131). See note 4 for further discussion.

2. Reflects the use of a going concern discount rate of 5.2% (2015 – 5.2%) determined with reference to the long-term annual investment return objective of the registered pension plan assets and the WSIB's investment strategy. For the purposes of the consolidated financial statements, an accounting weighted average discount rate of 3.90% (2015 – 4.05%) was used as at December 31, 2016. The accounting discount rate was determined by reference to high quality corporate bonds and the projected employee benefit payment cash flows from the various plans.

Notes to Sufficiency Statement
December 31, 2016
(millions of Canadian dollars)

4. Calculation of the Sufficiency Ratio

The Sufficiency Ratio is provided to illustrate the ratio of the assets and the liabilities of the WSIB on a sufficiency basis. The Sufficiency Ratio is calculated by dividing the Sufficiency Ratio assets less non-controlling interests by the Sufficiency Ratio liabilities.

The Sufficiency Ratio assets are established by adjusting the assets by investment returns above or below the long-term net investment return objective in effect for the 2016 fiscal year of 5.25% per annum (2015 – 6.0% per annum), and are recognized over five years on a straight-line basis to smooth fluctuations in the fair value of net assets. As at December 31, 2016, the Sufficiency Ratio assets reflect a cumulative total of $779 in valuation adjustments (2015 – $981) representing the unrecognized investment returns in excess of the long-term annual rate of return assumption, net of investment expenses.

The change in the valuation adjustments is detailed as follows:

	2013	**2014**	**2015**	**2016**	**Total**
Unrecognized investment returns above (below) the investment return objective	1,214	848	(17)	260	2,305
Investment returns recognized in 2013	(243)	-	-	-	(243)
Investment returns recognized in 2014	(242)	(170)	-	-	(412)
Investment returns recognized in 2015	(243)	(170)	4	-	(409)
Investment returns not recognized in the current period	486	508	(13)	260	1,241
Amortized in the current period	(243)	(170)	3	(52)	(462)
Total valuation adjustments as at December 31, 2016	**243**	**338**	**(10)**	**208**	**779**

The Sufficiency Ratio liabilities are established by adjusting the valuations of the Employee Benefit Plans obligations with a going concern discount rate of 5.2% (2015 – 5.2%) determined with reference to the long-term annual net investment return objective on the registered pension plan assets as described in note 2. The Insurance Fund liabilities include benefit liabilities which are determined through an actuarial valuation with a discount rate of 4.5% (2015 – 4.75%) per annum, as described in note 13 of the WSIB's 2016 consolidated financial statements. All other liabilities are determined on an accounting basis as recorded in the WSIB's 2016 consolidated financial statements.

The amount of unrecognized investment returns by the year they are to be recognized are as follows:

		Valuation adjustments to be recognized in:			
Year earned	**Valuation adjustments as at December 31, 2016**	**2017**	**2018**	**2019**	**2020**
2013	**(243)**	243	-	-	-
2014	**(338)**	169	169	-	-
2015	**10**	(3)	(4)	(3)	-
2016	**(208)**	52	52	52	52
	(779)	**461**	**217**	**49**	**52**

Notes to Sufficiency Statement
December 31, 2016
(millions of Canadian dollars)

Reconciliation of the Sufficiency Ratio assets

	December 31 2016	December 31 2015
Market value of investment portfolio[1]	29,366	26,301
Add/(Less): Cash transfers in the period[1]	(36)	11
Adjusted market value of investment portfolio	29,330	26,312
Investment portfolio at investment return objective[2]	29,070	26,329
Unrecognized investment returns above (below) investment return objective[3]	260	(17)
Add/(Less): Amount amortized in current period[4]	(52)	4
Valuation adjustments, current period	208	(13)
Valuation adjustments, prior periods[5]	571	994
Total valuation adjustments[6]	**779**	**981**
Investment portfolio on Sufficiency Ratio basis	**28,587**	**25,320**
Sufficiency Ratio Assets		
Total assets per consolidated financial statements	31,491	28,305
Less: Valuation adjustments[6]	(779)	(981)
Sufficiency Ratio assets	**30,712**	**27,324**

1. Represents the market value of the investment portfolio at the end of the year, less cash contributed from operations, assuming the cash was contributed at the end of the last month of the year.
2. The expected investment portfolio is calculated based on the long-term annual net investment return objective of 5.25% (2015 – 6.0%) on the ending total investment portfolio balance as of the last reporting period.
3. Calculated as the difference between the expected and the actual market value of the investment portfolio, representing the unrecognized investment returns above (below) the long-term annual net investment return objective of 5.25% for the year ended December 31, 2016 (2015 – 6.0%).
4. Represents the amount recognized in the year. See table in Note 4.
5. Represents the valuation adjustments from the prior years' unrecognized investment returns above (below) the long-term net annual rate of return. See table in Note 4.
6. Represents the total valuation adjustments deducted from the fair value of assets shown on our consolidated statements of financial position to determine the assets to be used in the calculation of the Sufficiency Ratio.

Notes to Sufficiency Statement
December 31, 2016
(millions of Canadian dollars)

5. Calculation of the Insurance Fund Ratio

The Insurance Fund Ratio is provided as a supplemental measure to illustrate the ratio of assets to liabilities of the WSIB on a sufficiency basis prior to the inclusion of the Employee Benefit Plans on a sufficiency basis. The Insurance Fund Ratio is calculated using the same components as the Sufficiency Ratio as described in notes 2 and 4, except that any deficit of the Employee Benefit Plans as calculated in note 3 are excluded.

6. Calculation of the Employee Benefit Plans Ratio

The Employee Benefit Plans Ratio is provided as a supplemental measure to illustrate the ratio of the assets and the liabilities of the Employee Benefit Plans on a sufficiency basis. The Employee Benefit Plans Ratio is calculated by dividing the assets of the Employee Benefit Plans on a sufficiency basis by the liabilities of the Employee Benefit Plans on a sufficiency basis. The balance of the liabilities of the Employee Benefit Plans is calculated using a discount rate of 5.2% per annum (2015 – 5.2%) determined with reference to the long-term annual net investment return objective on registered pension plan assets and the WSIB's investment strategy as described in note 2.