

WSIB ECONOMIC STATEMENT 2016



Note: Certain data referenced in this document relating to 2017 WSIB employer premium rates is no longer accurate owing to a calculation error in apportioning the Past Claims Cost when setting the 2017 target rates. The final result following this adjustment is a 6.2 per cent reduction in the average Schedule 1 employer premium rate for 2017, not five per cent as previously reported. For further information, please see the WSIB website.

For general inquiries regarding the 2016 WSIB Economic Statement or for electronic copies of the document please visit: www.wsib.on.ca.

Economic Statement

2016

Contents

Executive Summary	4
Introduction and Background	6
Current Context	7
Developments in 2016	11
Changes at the WSIB	11
<i>Rate Framework Modernization</i>	11
<i>Joining the Investment Management Corporation of Ontario</i>	11
<i>Presumptive PTSD Legislation for First Responders</i>	12
<i>Presumptive Cancer Legislation for Firefighters</i>	13
<i>Indexation of Benefits</i>	13
2016 Performance	13
Plan for the Future	17
Full Funding – Target Sufficiency Ratio	17
Premium Rate Outlook	18
Security for Workers	19
Impact on the Ontario Economy	19
Updated Trajectory to Full Funding	20
Assumptions Underlying Trajectory	22
Economic Projections and Forecasts	23
Conclusion	25
About the WSIB	26

Executive Summary

The WSIB is committed to the continuous improvement of outcomes for workers. Through enhanced access to specialized health care services and greater return-to-work (RTW) support, we are helping injured workers in Ontario recover and return safely to meaningful work. Today, 92 per cent of injured workers are returning to work within 12 months with no wage loss. Our goal is to build on our success by providing ongoing service improvements which will contribute to safe, healthy and productive workplaces across Ontario.

Our worker-focused initiatives, coupled with stronger premium revenue and sound investments, have helped stabilize our finances, enabling us to provide even greater value to those we serve. Our commitment to financial sustainability – and our progress in reducing the UFL – has allowed us to deliver enhanced benefits for injured workers and to provide a premium reduction to employers.

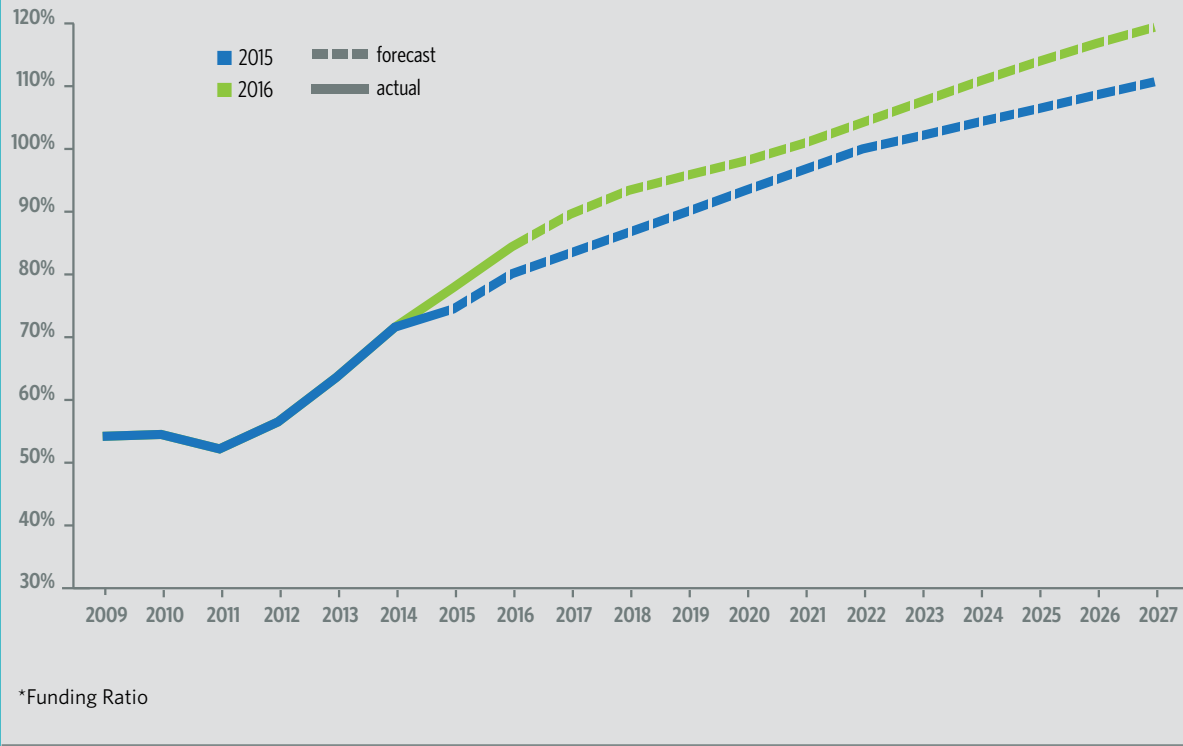
Beginning in 2017, the average premium rate will decline by 5 per cent. This is our first rate reduction in more than 15 years. This reduction means that approximately \$250 million less will be collected from employers. This has positive implications for Ontario's economy in terms of potential job creation and investment.

Further rate reductions may be possible in 2018 and 2019, depending on emerging financial results and the health of the economy. Should economic conditions permit, additional longer-term reductions may be pursued. We remain dedicated to ensuring that employers pay their fair share for workplace coverage.

Even with these reductions and enhanced benefits for workers, the WSIB's financial trajectory is slightly ahead of our position from last year. We anticipate being at a Sufficiency Ratio of 100 per cent by 2021, a year earlier than projected last year (see Figure 1). Compared to 2015, the 2016 estimates reflect:

- Improvements in recovery and return-to-work outcomes for injured and ill workers, resulting in lower estimated new claims cost;
- Better than expected financial results in 2015;
- Short-term reductions in premium rates.

Figure 1: Estimated trajectories with long-term rate reductions, 2015 compared to 2016



The WSIB will continue to closely monitor economic conditions, particularly as these affect our investment revenues and employment in Ontario. We will continue to test alternate scenarios and to revisit the need to adjust these assumptions in the future.

Elizabeth Witmer,
Chair

Tom Teahen,
President & CEO

Introduction and Background

The WSIB releases an annual Economic Statement to update Ontarians on our success in achieving better outcomes for injured workers, our progress towards financial sustainability and our impact on the economy.

The Workplace Safety and Insurance Board (WSIB) provides compensation and no-fault insurance for Ontario workplaces. As the main provider of workers' compensation insurance in the province, we provide coverage for more than five million workers and 300,000 businesses.

Today's WSIB is about much more than compensation. We are the bridge to getting people back to work – we facilitate recovery and the early and safe return to work. We are an organization that is dedicated to, and defined by, a commitment to integrity and excellence.

The pursuit of financial sustainability is a cornerstone of our efforts. We are proud to be ahead of schedule in reducing, and ultimately eliminating, our Unfunded Liability (UFL). Being financially strong will give us the ability to do even more for workers and employers in the future. Financial sustainability will ensure fair benefits and stable premiums.

At the WSIB, we've been supporting workers and employers in Ontario now for more than a century. We remain dedicated to making our organization even stronger and more sustainable – so we are always there when we are needed.

Over the past year, several key factors have affected the WSIB's economic outlook: positive recovery and early and safe return-to-work outcomes for workers, new legislation regarding benefits for injured workers and economic conditions affecting investment markets and employment in Ontario.

Our 2016 Economic Statement provides updates on outcomes for injured workers, details the WSIB's current financial position and announces 2017 premium rates. It also provides our stakeholders with information on key business initiatives.

Current Context

The WSIB is committed to integrity and excellence.

The workers' compensation system is designed, first and foremost, to serve workers by providing compensation when required and supporting recovery and return to work. More than five million Ontarians have workplace coverage under the WSIB – and we are growing every year. Our goal is to become the leading workplace compensation system in North America. To achieve that goal, we are committed to integrity and excellence in our operations. They are the values we strive to meet as we serve workers and employers in Ontario. And they are the principles against which our work is ultimately measured.

Integrity involves building and preserving trust and respect among our stakeholders. Achieving excellence means exceeding expectations and making the WSIB a positive force in the lives of those it serves.

With these guiding principles in mind, the WSIB is focused on five key priorities that underpin its new Strategic Plan: Health and Safety, Financial Sustainability, Customer Service, Innovation and a Focus on People.

Health and Safety

The WSIB is dedicated to a culture of health and safety through the prevention of workplace injuries, illnesses and fatalities. Each year, the WSIB provides approximately \$250 million to fund the health and safety system in Ontario, including prevention and enforcement activities.

As a key partner, the WSIB actively supports Ontario's health and safety system by participating in the Prevention Council providing advice and support to the Chief Prevention Officer. The WSIB is collaborating with our system partners to create a Health and Safety Index which reflects Ontario's health and safety performance. This innovative approach, the first of its kind in Canada, is being designed as a single measure that can be used to:

- Assess the health and safety system's success at improving outcomes;
- Act as a "call to action" for system partners to improve the system's performance;
- Facilitate discussion about health and safety among system partners;
- Inform system priorities.

The WSIB offers a suite of voluntary health and safety programs which provide assistance to employers in developing and improving their health and safety management systems. The WSIB will be reviewing its health and safety programs from a continuous improvement perspective with the goal of creating a continuum of programming for employers and workers across Ontario. We are also in the process of developing an online health and safety planning tool that would further support employers by providing high quality and timely information on injuries and claims that impact safety performance.

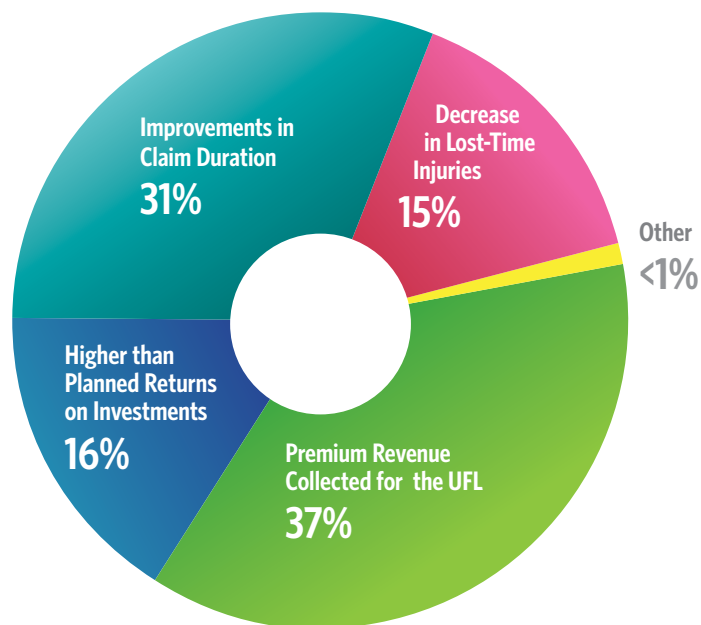
Financial Sustainability

Over the past five years, the WSIB has achieved meaningful progress in improving its financial position. The UFL is being reduced ahead of schedule. Our pursuit of financial sustainability is not an end unto itself. It is a way of ensuring the delivery of benefits to workers for generations to come – and the freedom to focus on other priorities in the service of both workers and employers.

The significant financial improvements achieved by the WSIB since 2009 can be attributed to four main factors.

- Increased premium revenue from employers that was collected specifically to decrease the UFL.
- Higher investment returns than long-term targets.
- Fewer claims. Claim volumes have been declining for more than two decades and continue to do so today.
- Improved recovery and return-to-work results – achieved through the WSIB’s health care and return-to-work initiatives, along with more efficiency in the claims management process.

Figure 2: Factors behind the reduction in the UFL



Customer Service

Our goal is to elevate our customer service to a point that even if employers and injured workers had the option to go elsewhere for workplace insurance or compensation, they would continue to come to the WSIB.

We know there is more we can do to meet the expectations of those we serve and demonstrate leadership in this area. We believe that successful Customer Service involves developing new and better ways to assist those who come to us at a difficult and vulnerable time. It is about being responsive and compassionate. It is about continuing to improve our response times and increase our productivity. Customer Service is closely linked to the other areas of our strategic focus. Enhancements will require innovation as well as talented and committed WSIB staff.

Innovation

The WSIB's commitment to Innovation is supported by our goal to improve Customer Service. We recognize there is much to learn and apply from other jurisdictions. Through the WSIB's research and grants program, we also support external researchers with promising proposals for insight and best practices that will help us improve the system. Our stakeholders and partner organizations which focus on workplace health and safety, worker recovery and return to work are another important source to inform decisions on Innovation.

In 2016 we launched the next phase of our Accounts and Claims Enterprise System (ACES), an integrated claims and accounts management tool. ACES is enhancing productivity and improving customer service. It will be fully integrated into all business areas by year-end.

Innovative organizations view data as the new commodity of the 21st century. The WSIB collects data from both employers and workers that can be used to better understand trends and improve services. We will be building on the WSIB's current business intelligence capability to identify and prevent workplace injuries and illnesses and to improve outcomes for injured workers and employers.

Advances in our business intelligence capabilities will also help us to determine which solutions are most likely to succeed, where there are bottlenecks in our service delivery and how to better respond to trends.

Focus on People

To make strides in the three areas above, we require a team that is skilled, knowledgeable, creative and dedicated. WSIB employees must have the tools to create a work environment that cultivates success. Using strategic workforce planning and leadership development, we will work to attract and retain the talent we need to be a model employer in Ontario. Treating

our own employees fairly, helping them to develop their skills and doing all we can to ensure their health and safety are fundamental to our initiatives.

In 2016, we have developed several initiatives aimed at recognizing and developing our people. They include enhancements to our quarterly Service Excellence employee recognition program, our Leadership Capability Model and a quarterly Leaders' Exchange with our President and CEO. We anticipate that these initiatives and our work in the first three areas described will serve as a catalyst for attracting and retaining top talent.

Developments in 2016

Organizational changes, new legislation, strong operational performance and economic volatility.

Changes at the WSIB

Under the leadership of a new CEO and COO, the WSIB has become more determined than ever to be and be seen by workers and employers, by those making claims and those returning to work, by our own employees, by government and by the public as an organization that is dedicated to, and defined by, integrity and excellence. These two principles form the foundation of the 2016 - 2018 Strategic Plan approved by our Board of Directors last fall. Current initiatives in these areas include implementing a new customer experience strategy, strengthening our compliance system and practices, improving our IT infrastructure and building on our data quality and analytics capabilities.

Other changes at the organization this year have included:

Rate Framework Modernization

The WSIB is finalizing the development of a new Rate Framework to address challenges with the current system of classification and rate setting and change the way that premium rates are set. As part of this initiative, the WSIB has undertaken robust stakeholder engagement activities to provide opportunities for all to share their perspective and input as the initiative has evolved. As a result of the thoughtful input into this effort, we are nearing the finalization of a Rate Framework that brings greater fairness in setting premium rates, a more reasonable balance between premium rate stability and responsiveness, and makes it easier for all involved to understand and engage in the process.

Later this year, the WSIB will be seeking approval of the Rate Framework design from the Board of Directors. We are committed to ensuring that any significant changes are implemented gradually and in a manner that fosters stability. Following the approval of the Rate Framework, the WSIB will undertake education and outreach efforts to ensure a broader understanding of the new approach, and each employer's journey towards their new premium rate. This will form part of a continued engagement with stakeholders on a transition plan towards a targeted implementation in January 2019, at the earliest.

Joining the Investment Management Corporation of Ontario

Announced in 2016, the WSIB has become one of the first two members (along with the Ontario Pension Board) of a new provincial investment entity, the Investment Management Corporation of Ontario (IMCO). By pooling the management of our investment fund with other members, we anticipate investment economies of scale, wider access to investment opportunities, enhanced risk management and the optimal use of internal and external investment management. We have robust project management in place to enable a

measured and well-managed transition of investment management to IMCO.

IMCO will enable greater sustainability for WSIB investments and contribute to the resiliency of the WSIB's financial position, as well as the security of benefits for injured workers and their families.

Presumptive PTSD Legislation for First Responders

On April 6, 2016 the Ontario Government passed Bill 163 titled *Supporting Ontario's First Responders Act (Posttraumatic Stress Disorder), 2016*. With this change, if a First Responder or other designated worker is diagnosed with posttraumatic stress disorder (PTSD) and makes a claim for benefits, the WSIB must presume the condition is work-related, unless the contrary is shown.

Claims for PTSD that may be covered under the presumptive legislation are reviewed by a specialized team at the WSIB, a multidisciplinary unit with Case Managers and Nurse Consultants dedicated to handling these cases with compassion and sensitivity. The Case Manager is responsible for gathering the relevant information from a worker and an employer to determine initial entitlement to benefits and services. The Case Manager works closely with the Nurse Consultant who is responsible for facilitating access to appropriate assessments and treatment in an effort to support recovery. Where and when appropriate, the Case Manager will also engage a Work Transition Specialist to assist the worker and employer in the return-to-work process.

The WSIB is working to build additional capacity in communities across Ontario to ensure that workers have access to timely psychiatric and psychological services for assessment, diagnosis and treatment for those suffering from PTSD. Efforts are underway to develop a roster of psychiatrists and psychologists through an open and competitive procurement process. Our goal is to make Ontario a national leader in the prevention of workplace mental stress issues including PTSD, and the support of workers suffering from PTSD or other workplace mental stress issues. We will continue to work closely with our health and safety partners to achieve this goal.

The WSIB expects that each injury year will give rise to approximately 1,000 PTSD claims – about 200 from Schedule 1 employers and 800 from Schedule 2¹. In addition, we estimate that approximately 2,000 new claims will ultimately be submitted under the legislation's transition provisions – 400 from Schedule 1 employers and 1,600 from Schedule 2. While the financial impact of these claims is greatest for Schedule 2 employers, the trajectories (Figure 8) reflect any expected cost increases to the WSIB associated with PTSD claims by First Responders and an estimated UFL impact of \$35 million.

¹ Schedule 2 employers are specific types of organizations recognized as distinct under the *Workplace Safety and Insurance Act*. Unlike Schedule 1, Schedule 2 employers do not act under the collective liability insurance principle and are individually responsible for the full cost of the accident claims filed by their workers.

Presumptive Cancer Legislation for Firefighters

Through legislation passed in May 2014, the Government of Ontario expanded the list of cancers that are presumed to be work-related for firefighters in the province. Three of the six new cancers became effective immediately, while prostate cancer was added as of January 1, 2015, and lung cancer as of January 1, 2016. Skin cancer will be added in 2017. These are in addition to the eight cancers initially provided for under legislation passed in 2007.

To ensure timely service to workers and their families, WSIB has a designated team in place that works closely with the firefighting community to communicate decisions to workers, their families and employers. As of June 30, 2016, the WSIB has granted entitlement in 962 firefighter claims under the presumptive regulations and has processed over \$148 million in benefits to workers and their families.

The impact of the presumptive cancer legislation on the WSIB's financial position has been moderated by the fact that most employers are Schedule 2 employers. However, at year-end 2014, \$127 million was added to the UFL in recognition of Schedule 1 costs associated with the presumptive cancers, an increase that was included in the 2015 estimated economic trajectory and continues to be reflected this year.

Indexation of Benefits

Currently, the indexing factor used for the annual indexation of workers' compensation benefits varies depending on the benefit type. For example, in 2015, partial loss of earnings (LOE) benefits were indexed by the temporary indexing factor (0.5 per cent) while full LOE benefits were indexed to the Consumer Price Index (CPI) (1.8 per cent). In December 2015, the Ontario Legislature passed legislation requiring that, beginning in 2018, all benefits be indexed to the annual percentage change in the CPI. Leading up to 2018, the temporary indexing factor was maintained at 0.5 per cent in 2016 and will be increased to 1.0 per cent in 2017. The impact of these interim years and then full CPI indexation has been estimated to be a \$948 million increase to the UFL as of year-end 2015. This amount was estimated in the assumptions shown in our 2015 Economic Statement and will continue to be reflected in our future projections.

2016 Performance

Fewer registered claims. The volume of claims coming into the WSIB continued to decline in the first six months of 2016. At the end of the second quarter, 93,029 claims² had been registered, compared to 93,911 claims by the same time in 2015, a reduction of 0.9 per cent. The number of registered lost-time claims (26,747 claims year-to-date), which have a greater impact on benefit costs and the WSIB's financial position, declined by 1.4 per cent compared to 2015. Correspondingly, the lost-time injury rate - which has been declining

² Figures in this section are as of the end of June 2016, unless otherwise indicated.

steadily over the past decade – is once again down, from 0.83 injuries per 100 workers at this time last year to 0.81 as of Q2 2016.

Strong recovery and return-to-work outcomes. Since 2009, a significant contributor to the WSIB’s stronger financial results has been the improving recovery and return-to-work outcomes for injured and ill workers. By investing in early expert medical care and supporting injured and ill workers in their early and safe return-to-work efforts, the WSIB has gone from having some of the worst return-to-work results of any jurisdiction in Canada in 2009 to having the best (see Figure 3).

Figure 3: Comparing Canadian jurisdictions: percentage of wage-loss claims off compensation at 30, 90 and 360 days (2014 results)

	Ontario	Alberta	British Columbia	Manitoba	New Brunswick	Newfoundland	Nova Scotia	Quebec	PEI	Saskatchewan
30 days	71.8%	61.2%	56.0%	64.5%	43.4%	52.8%	52.9%	57.4%	48.0%	61.7%
90 days	86.0%	79.7%	77.0%	82.5%	62.9%	69.8%	77.2%	74.6%	66.1%	76.2%
360 days	96.4%	95.7%	91.0%	95.0%	89.4%	89.6%	90.0%	90.7%	84.6%	94.2%

Source: Association of Workers’ Compensation Boards of Canada (AWCBC), www.awcbc.org

In 2016, longer-term outcomes for injured workers have continued to improve. The percentage of claims that continue to require benefits after 72 months has decreased from 4.2 per cent in Q2 2015 to 2.8 per cent this year. As anticipated, short and medium-term durations have begun to stabilize. For example, the percentage of claims that continue to require benefits after 12 months is 3.7 per cent and 24 months is 2.6 per cent, almost identical to the same time last year (3.8 per cent and 2.7 per cent, respectively). As a result, our economic trajectory (Figure 8) assumes no further improvement in our short to medium-term duration results.

Due to stability in short and medium-term durations, Q2 year-to-date benefit payments at \$1,168 million are consistent with last year (\$1,167 million). Though it is not currently anticipated, there is still a risk that an increase in duration results could slow our progress in eliminating the UFL and achieving full funding. We mitigate against this risk by continuing to invest in our prevention, recovery and return-to-work efforts – and closely monitoring our performance in these areas.

Premium revenue higher than last year. Premium revenue as of Q2 2016 was \$2,424 million, 3.8 per cent higher than the same period last year. By the end of 2016, we are forecasting \$4,789 million in premium revenue which would mean year-over-year growth of 2.2 per cent.

Even though published premium rates were held steady compared to 2015, the increase in premium revenues to date was due to higher insurable earnings – resulting from economic growth in Ontario. Of the largest industries served by the WSIB, construction, manufacturing and services experienced the highest year-over-year increases in insurable earnings, up 3.4 per cent, 3.3 per cent and 3.3 per cent, respectively. Continued growth in premium revenue for the remainder of the year will depend on ongoing strength in Ontario employment levels and wages, particularly in the WSIB’s six largest industry sectors.

Figure 4: Insurable earnings (\$M) by industry - top six sectors

	YTD Q2 2016	YTD Q2 2015	Change	% Change
Automotive	3,358	3,265	93	2.8%
Construction	7,361	7,120	241	3.4%
Health Care	10,267	10,162	105	1.0%
Manufacturing	17,852	17,282	570	3.3%
Services	21,466	20,790	676	3.3%
Transportation	4,420	4,322	98	2.3%

Approximately 80 per cent of the WSIB’s premium revenue comes from employers in six industries. As such, our main revenue stream is strongly dependent on the health of a subset of the Ontario economy. The construction industry alone provided 27 per cent of our 2015 premiums. While the construction industry has seen steady growth over the past two decades in the province, significant short-term declines in the sector do occur. We monitor this risk by carefully tracking forecast performance of key industries, including third-party expert research, and building our own revenue and cost projections accordingly. The WSIB’s new Rate Framework, by aligning rates to individual employer experience, is also being designed to help mitigate this risk.

Short-term investment returns below plan. Economic and geo-political uncertainty, including the impact of the Brexit referendum and limited growth in key regions, have contributed to market volatility and lower than anticipated investment returns so far in 2016 (+1.3 per cent). This performance remains within our expected range of annual investment volatility. We acknowledge that for 2016, full-year returns could be below target.

Due to the way the Sufficiency Ratio is calculated (as regulated by the Province), annual investment returns differing from expected returns are smoothed over the subsequent five years, so deficiencies/excesses in any given year’s returns have muted immediate impact on funding sufficiency. As such, our 2016 funded status reflects past years’ investment

performance, which included returns that were higher than target (e.g., 12.7 per cent in 2013 and 10.3 per cent in 2014) as well as 5.8 per cent returns in 2015. This smoothing is done to reduce the impact of short-term market volatility on our Sufficiency Ratio and a corresponding impact on employers' premium rates.

While the external conditions that create market volatility are beyond our control, we do partially mitigate against volatile investment returns by diversifying our portfolio. The level of diversification has been significantly increased in recent years. Specifically, as of Q2, we have reduced the proportion of our portfolio that is invested in traditional equity strategies to 37 per cent compared to 65 per cent in 2008 and placed these funds in other investment categories which offer different return streams that create more stable total portfolio returns.

Impact on the Unfunded Liability. Based on 2016 year-to-date performance forecasted to year-end, the WSIB expects its financial sufficiency to continue to strengthen and the Sufficiency Ratio to be approximately 85 per cent. Even with its recent improvement, the WSIB continues to be one of only two jurisdictions in Canada that are currently not fully funded (see Figure 5).

Figure 5: Funding requirements for other jurisdictions

	Funding Targets	Funding Status (% of assets/liabilities)
Alberta	114% to 128%	134.3%
Manitoba	130%	143.3%
New Brunswick	110%	123.2%
Newfoundland and Labrador	100% to 120%	112.0%*
Northwest Territories and Nunavut	125%	116%*
Nova Scotia	N/A	77%*
Prince Edward Island	100% to 110%	123.9%
Quebec	N/A	99.5%*
Saskatchewan	105% to 120%	144.7%
Yukon	125%	155%

*2014 results (all others are 2015)

Plan for the Future

The WSIB remains on track to eliminate the Unfunded Liability and will begin to provide rate reductions in 2017.

Full Funding - Target Sufficiency Ratio

The WSIB has been working to define “full funding” and to understand what level of funding – beyond 100 per cent – should be targeted. The additional margin over 100 per cent will ensure the sustainability of benefits for the injured workers who need them while providing premium rate stability to employers. It will moderate the risk of any future UFL in the event of economic shocks.

To determine an appropriate level of steady-state funding, we have looked to Office of the Superintendent of Financial Institutions (OSFI) guidelines, funding levels maintained by other workplace compensation boards, to our own experts—the WSIB’s Chief Actuary and team, and to our panel of external experts, the Actuarial Advisory Committee.

We now plan to target a Sufficiency Ratio in the range of 115 to 125 per cent as constituting full funding.

All employers will benefit if the WSIB is able to first reduce, then eliminate, the UFL. As the system moves past the tipping point, they will be spared the risk of either being left uninsured or (more likely) having to pay for a costly “bail-out” through a spike in their premium rates; at higher levels of funding, they will benefit from the WSIB’s enhanced capacity to innovate; and ultimately they will benefit from reduced premium rates.

Harry Arthurs report, *Funding Fairness*, p. 73

Figure 6: Size of the WSIB’s Unfunded Liability over time



*UFL on a sufficiency basis

Premium Rate Outlook

In the 2015 Economic Statement, the WSIB suggested that premium rate reductions might be possible as early as 2017. Premium rates were held steady from 2013 to 2016³. Given recent financial results and our updated economic trajectory, the WSIB will be reducing the average premium rate by 5 per cent for 2017. This will be the first premium rate decrease since 2001. Another 5 to 10 per cent total reduction to the average rate may be considered between 2018-2019, depending on emerging financial results and the health of the economy.

However, we believe economic conditions pose greater risk than we predicted one year ago, with greater uncertainty to our revenues from investments and premiums. We continue to model and monitor economic scenarios to better understand the impact of economic risks and to determine the adequacy of our financial assumptions.

Premium rates by industry. The premium rate discussed above is the average across all types of industries and employers. However, the rate actually paid by each employer is based on their rate group(s). In the coming years, rates for individual employers will change as the WSIB gets closer to achieving full funding and the WSIB's new Rate Framework is introduced.

For 2017 premium rates, rate groups that have shown positive health and safety performance relative to the whole of Schedule 1 will see a decrease of up to 14 per cent in their rate compared to 2016 (e.g., Home Building and Restaurant rate groups in Figure 7). No rate groups will see an increase in their premium rate, with the exception of two impacted by the presumptive PTSD legislation.

Figure 7: 2017 premium rates for select rate groups

	2017 premium rate	2016 premium rate	% change	Resulting savings in 2017*
General Trucking	\$6.72	\$6.72	0	0
Restaurants and Catering	\$1.58	\$1.72	-8%	\$7 million
Home Building	\$7.83	\$9.10	-14%	\$27 million

*Savings are shown in constant 2016 dollars and include forecast growth in insurable earnings for each rate group.

3 With the exception of rate group 845 "Government and Related Services" that had a rate increase in 2015 due to expanded coverage for presumptive legislation for firefighters.

Security for Workers

The workers' compensation system is designed, first and foremost, to serve workers by providing compensation when required and supporting recovery and return to work. Full funding means that workers' benefits will remain secure. A workplace compensation system that no longer bears the burden of a UFL will be one with more options, including the ability to make further improvements to service and to introduce innovations that better deliver on worker needs.

We are more committed than ever to ensuring that workers injured on the job receive the full benefits to which they are entitled - while making as rapid and complete a recovery as possible. In 2016, the WSIB continued to invest in early expert medical assistance. For example, a new Program of Care was introduced to assist workers with Mild Traumatic Brain Injuries and new services were established to assist workers who have developed or are at risk of developing PTSD. We continue to believe that return to work is the best outcome for injured or ill workers.

Impact on the Ontario Economy

The WSIB's projections for the future continue to look bright. We believe we will eliminate the UFL by 2021 even as we implement legislated benefit increases (e.g., presumptive PTSD legislation, indexation of partial benefits), invest in our systems to improve service and lower premium rates.

In 2017 alone, an estimated \$250 million will stay in the Ontario economy with the 5 per cent reduction in the average premium rate. Currently the average Schedule 1 employer premium rate of \$2.59 includes \$1.10 (42 per cent) that is collected specifically to pay down the UFL. Once the UFL is retired and the WSIB has achieved full funding, the WSIB will no longer be required to collect these funds. This would result in an average premium rate of between \$1.40 and \$1.50, which would make Ontario's workplace compensation rates among the lowest in Canada.

Updated Trajectory to Full Funding

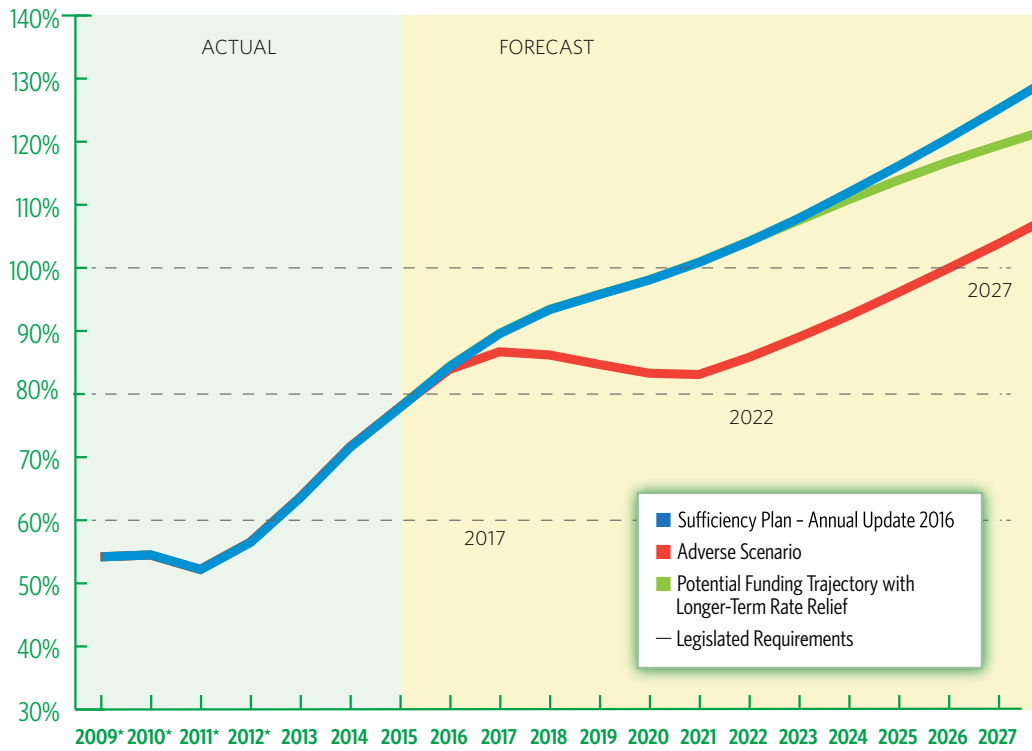
The chart below shows the WSIB's latest estimated timeline for eliminating the UFL and beyond – to achieving full funding. Since we shared the financial trajectories in the 2015 Economic Statement, the net impact on our financial position has been positive and we are well placed to eliminate the UFL by 2021, though we are closely monitoring global economic conditions as they evolve. After being in the “recovery” zone financially (Sufficiency Ratio of 60 to 80 per cent, as defined in the Harry Arthurs report, *Funding Fairness*) as recently as last year, the WSIB is now within the “comfort” zone with a Sufficiency Ratio above 80 per cent. Achieving 80 per cent funding was a legislated requirement for 2022, meaning that the WSIB is currently six years ahead of schedule as it reached the milestone this year.

The estimated trajectories below include the reduction of 5 per cent to the average premium rate in 2017, as well as further 5 per cent reductions which may be possible for each of 2018 and 2019. The Sufficiency Plan – Annual Update 2016 trajectory (blue line) does not include rate relief beyond 2019. The Potential Funding Trajectory with Longer-Term Rate Reductions (green line) includes further, potential rate reductions; decreases of 15 to 20 per cent between 2023 and 2027 and again from 2028 to 2032.

The adverse scenario (red line) was developed based on adverse conditions in which insurable earnings only grow at half of their expected “normal” growth rate for a period of three years and investment markets drop by 1 per cent followed by a 15 per cent drop in the following year. Under this scenario, the WSIB held all other assumptions constant. The scenario mimics, to some degree, the WSIB's experience during the 2007/2008 Global Financial Crisis. The 2007/2008 experience was chosen as a recent, real-life example of an economic downturn.

The trajectories assume no new increases to benefits and stable volume and duration of claims. Compared to the assumptions used in the 2015 Economic Statement, we have reduced our estimated new claims cost to reflect ongoing improvements in recovery and return to work. We have also increased our estimated benefit costs due to the presumptive PTSD legislation.

Figure 8: Latest estimated trajectories to full funding



*Funding Ratio

Assumptions Underlying Trajectory

The assumptions used in calculating our economic trajectory are provided below (Figure 9). Any change in the assumptions since the 2015 Economic Statement is indicated. Each assumption has an impact on the WSIB's funding trajectory including the time needed to eliminate the UFL and/or our ability to reduce premium rates as planned.

Figure 9: Assumptions for estimated trajectories

Measure	Assumption	Change from 2015 Economic Statement
Insurable earnings	2.5 per cent growth in 2016, 2017 2.0 per cent thereafter	No change beyond adding adverse scenario
	<i>Adverse scenario:</i> 50 per cent of normal growth over three years 2.0 per cent thereafter	
Long-term target investment rate	5.25 per cent	No change
Investment returns - adverse scenario	1 per cent loss in 2016 15 per cent loss in 2017 3.5 per cent in 2018, 2019 5.25 per cent thereafter	N/A
Discount rate	4.75 per cent	No change
New claims cost	\$0.85 per \$100 of payroll in 2016 \$0.93 thereafter	Reduced from \$0.95 to reflect ongoing improvements in recovery and return-to-work outcomes
Inflation	2.0 per cent	No change - continues to be consistent with the middle of the range of the Bank of Canada's long-term target of 1 to 3 per cent
Health care escalation	4.0 per cent	No change
Lost-time injury claims	Stable - No future improvement	No change
Claims duration	Stable - No future improvement	No change
Benefits	No further change beyond PTSD, presumptive cancer legislation and partial indexation rate	PTSD added (\$35 million as of year-end 2016 and a minimal impact to NCC) - other legislated increases had already been reflected in 2015

Economic Projections and Forecasts

The WSIB's financial position is impacted by global, national and provincial economic conditions. The WSIB closely tracks developments at all levels as an input to our forecasting and for corporate planning.

There are risks associated with our assumptions and estimates such as those behind our economic trajectory. Global, national and provincial economic performance may fall short of our estimates in the years to come, even though these estimates tend to be conservative and already include slow economic growth in the short to mid-term. Weak economic performance impacts the WSIB through reduced insurable earnings and premium revenue, fewer opportunities for workers to find new employment and return to work and lower rates of return on our investments, all of which directly affect our funding sufficiency.

The WSIB continues to closely monitor economic conditions and to test alternate scenarios including more dramatic downturns that might occur from external events such as Brexit, the U.S. presidential election or other large-scale events. While we stand by our current assumptions for economic growth, we will continue to revisit the need to adjust these assumptions in the future. We have also provided an adverse scenario projection to illustrate how an economic downturn could affect our funded status and our ability to meet funding goals.

Globally

Expectations for global growth continue to decline for this year and 2017, and the added impact of uncertainty in Europe (including Brexit) has put further pressure on growth rates. Concerns over a banking crisis in Italy and its potential implications for the Eurozone have also arisen this summer. The Bank of Canada is now predicting 2.9 per cent growth in global GDP in 2016 followed by 3.3 per cent in 2017, down slightly from its April 2016 forecasts of 3.0 and 3.4 per cent. These forecasts are somewhat more optimistic than Conference Board of Canada's estimates of 2.4 per cent in 2016 and 2.8 per cent in 2017.

U.S. economic growth has shown mixed signals with recent strength as the U.S. unemployment rate has been stable, averaging 5 per cent for the past year. The Eurozone and Japan have experienced and are projecting lower, stable growth rates while the U.K. economy is showing mixed results as it sorts through their future Brexit economic uncertainties. In developing economies, China's growth is moderating while remaining above developed economy growth rates, India is a bright spot with higher growth and Russia and Brazil are experiencing economic pain. Central banks remain vigilant and united about economic downside risks and are maintaining and expanding the scope of their accommodative monetary policies while governments attend to differing demands and availability of fiscal policy responses.

Canada

In contrast to the global economy, the Canadian economy showed an unexpectedly strong start to 2016, but forecasts for growth for the full year remain tempered. The economy appears to have stabilized in recent months, with unemployment having fallen below 7 per cent for the past two months. The Canadian dollar is trading between 75 and 80 cents (U.S.), up from 69 cents in February.

The Bank of Canada⁴ describes the following (anticipated) impacts to Canadian economic growth in 2016:

- Modest negative impact to Canada from the Brexit referendum due to mostly indirect influences from resulting global uncertainty.
- The negative economic effects of the Alberta wildfires, which took a toll on national GDP in Q2, should abate and GDP should see a boost as rebuilding efforts get underway and oil production comes back on line.
- Solid growth in U.S. domestic demand.
- Federal infrastructure spending driving growth.
- Ongoing adjustment to lower commodity prices, namely redistribution of investment and employment away from the resource sector, particularly the oil industry.
- An anticipated increase in non-commodity exports is expected to drive growth. The Bank of Canada also remains optimistic about growth in household spending.

Ontario

In Canada, forecast growth varies by province in the near-term, with Ontario and B.C. leading the way with the highest growth projections. The Conference Board of Canada reports⁵ that Ontario is one of only a few provinces to be experiencing growth so far this year, driven by job creation, rising consumer demand and strengthening exports, in particular exports to the U.S. from the auto sector. According to one of Canada's largest banks, the value of U.S.-bound goods exports out of Ontario increased 14 per cent in the first half of 2016. Also behind the growth in Ontario are low energy prices, a relatively weak Canadian dollar, low interest rates and government investment in infrastructure. The housing market in the province is expected to continue to be very strong, at least through 2016. The Ontario government's plans to balance its books by 2017-18 are being supported by the stronger economy.

4 Monetary Policy Report, July 2016

5 Provincial Outlook - Economic Forecast, Spring 2016

Conclusion

2016 has proven to be a pivotal year for the WSIB. Our continued focus on better outcomes for workers and our progress toward financial sustainability are providing us with greater flexibility. The announcement of a 5 per cent reduction to the average premium rate for 2017 is a tangible result of our efforts. We have also signaled the potential for further premium rate relief in 2018 and 2019 should economic conditions remain favourable. Our Rate Framework consultation process will continue in the coming months as we work toward implementation. At the same time, we will stay on track to retire the UFL ahead of the legislated deadline. We will also work toward our goal of full funding following targeted timelines. Going forward, the WSIB will continue to invest in return to work, health care, innovation and health and safety initiatives to better serve the workers and employers of Ontario.

About the WSIB

The Workplace Safety and Insurance Board (WSIB) is an independent trust agency that administers compensation and no-fault insurance for Ontario workplaces. We are committed to delivering what matters to the workers and employers of Ontario: fair benefits at a fair price and fast, accessible service. The WSIB provides wage-loss benefits, medical coverage and help getting back to work – the best possible outcome following an injury on the job.

The level of support provided by the WSIB has a significant impact on hundreds of thousands of Ontario workers and their families and on the overall productivity of the province. The WSIB:

- Is the main provider of workers' compensation insurance in Ontario and covers 5.3 million workers in over 300,000 businesses across 16 industries.
- Registers close to 200,000 claims each year for workplace injury or disease.
- Collects \$4.5 billion of premium revenue annually.
- Paid \$2.3 billion in benefits to injured or ill workers in 2015.
- Pays nearly \$300 million each year to cover the cost of programs outside the WSIB such as funding for the Ministry of Labour, the Office of the Chief Prevention Officer and health and safety associations.
- Invests over \$25 billion in reserve to pay future payments on past claims.



WSIB ECONOMIC STATEMENT **2016**

