Workplace Safety and Insurance Board

First Quarter **2018** Sufficiency Report

wsib
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President and CEO's message

At the WSIB, our job is to help people. We help people recover and safely return to work after an injury or illness. We also help businesses improve their health and safety programs. We do this every day so that we can deliver the best outcomes possible and demonstrate our public value to the people and businesses of Ontario.

I am pleased to share that the first three months of 2018 have seen some strong results in health and safety and return to work in Ontario. In Q1, we saw a drop in the percentage of people experiencing permanent impairments from their workplace injuries or illnesses – 5.3% compared to 6.0% last year.

As well, 89% of those completing work transition plans this quarter went on to find employment, an improvement from 86% in Q1 2017.

While overall we saw approximately nine out of 10 people (89.6%) return to work within 12 months, slightly below where we were in Q1 2017 (90.9%), we are making continued efforts to help more people get back to work at the right time.

We have introduced an enhanced Return-to-Work program focused on getting claims to our specialized staff at the right time and providing a more personalized service. We will continue to focus on, and monitor, return-to-work progress.

This quarter also saw us implement the second consecutive annual reduction to the average premium rate. This year, we have reduced the average premium rate by 3.3%, leaving more money with businesses to invest in jobs, technology or health and safety efforts. This has been possible because of our strong financial results.

In fact, since January 1, 2018, we have reduced our remaining unfunded liability by over 50% ($715 million) to $634 million, which corresponds to a Sufficiency Ratio of 98.0%. By ensuring our fiscal sustainability, we are also ensuring the health care, recovery services, and other benefits people rely on will be available when they need them.

We will continue to keep you updated as we progress throughout 2018 with a strong focus on improving outcomes for those we serve.

Thomas Teahen
President and Chief Executive Officer
June 21, 2018
Toronto, Ontario

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 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 three months ended March 31, 2018 (the "unaudited interim consolidated financial statements").

Thomas Teahen
President and Chief Executive Officer
June 21, 2018
Toronto, Ontario

Pamela Steer
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.

$$\text{Sufficiency Ratio} = \frac{\text{insurance fund assets}}{\text{insurance fund liabilities}}$$

The details of the insurance fund assets, known as the Sufficiency Ratio assets, are described in note 2 of the Sufficiency Statement. The insurance fund liabilities, known as the Sufficiency Ratio liabilities, are described in note 3 of the Sufficiency Statement.

Specific definitions for a number of terms may be found at the WSIB website.

2. Year to date review

Our performance for the three months ended March 31, 2018 and the effect on our Sufficiency Ratio.

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

(millions of Canadian dollars)	Mar. 31 2018	Dec. 31 2017	Change $	Change %
Sufficiency Ratio assets	31,618	30,930	688	2.2
Sufficiency Ratio liabilities	(32,252)	(32,279)	27	0.1
Unfunded liability on a Sufficiency Ratio basis	(634)	(1,349)	715	
Sufficiency Ratio	**98.0%**	**95.8%**		**2.2%**

As shown above, as at March 31, 2018, the WSIB had an unfunded liability on a Sufficiency Ratio basis of $0.6 billion, which means the Sufficiency Ratio liabilities exceed the Sufficiency Ratio assets. This means that the WSIB had 98.0% of the assets required to meet its future obligations.

The increase in the Sufficiency Ratio is primarily attributable to employer premiums used to reduce the unfunded liability and better than expected investment returns on Sufficiency Ratio assets.

The Sufficiency Ratio of 98.0%, as at March 31, 2018, was significantly higher than the 80% funding level required on December 31, 2022 and is approaching the legislated 100% funding level required on December 31, 2027.

3. Our funding strategy

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

In accordance with *Ontario Regulation 141/12*, and amended by letter from the Ministry of Labour, the WSIB submitted the Sufficiency Plan Update 2017 as part of the 2017 Economic Statement to the Minister of Labour in August 2017, describing the measures being taken by the WSIB to improve the Sufficiency Ratio and how these measures will achieve the prescribed ratios.

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 cover claim costs, administration and other expenses and provide an allocation towards the retirement of the unfunded liability. Favourable claims experience and better than expected investment returns have also helped us make significant progress to reduce the unfunded liability.

As we quickly progress towards achieving a Sufficiency Ratio of 100%, we continually refine our strategy to ensure that the Insurance Fund can withstand future economic shocks, 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 advise the WSIB as to the margin of prudence that should be maintained over and above the legislated requirement to be 100% funded. This prudent level of funding is referred to as “Full Funding”.

4. Insurance funding risk

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 revenues to cover costs or increases in the benefit liabilities and/or insufficient investment revenue.

The risk remains moderate as the Sufficiency Ratio is just under 100%. In anticipation of exceeding 100% Sufficiency Ratio, the scope of the insurance funding risk has been expanded to also include the risk of overfunding the system and the required actions to address the expanded risk. Discussions are underway to set appropriate guidelines.

As the Sufficiency Ratio improves, the WSIB has reduced the average employer premium rate. In 2017, the average employer premium rate for the year was reduced by 6.2%. For 2018, the average premium rate will be reduced by another 3.3%, making for a cumulative reduction of nearly 10% in two years. As noted in the graph below, we continue to reduce our unfunded liability ahead of the legislated requirements.

New Claim Cost (NCC) Recovery in Premium Rate

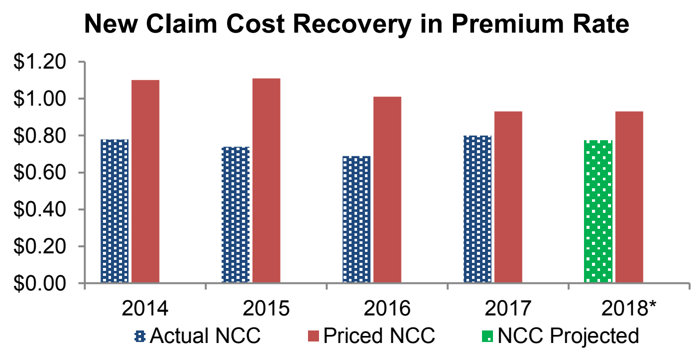
Threshold: 100% of "Actual NCC", including the recovery of appropriate prudency margins in annual premium rate setting ("Priced NCC").

Commentary: Achieved over last 5 years.

*2018 NCC data is a projection aligned with the respective rate setting cycle (set in September of the prior year) and recalculated at year-end.

2014, 2015, 2016 and 2017 are recalculated actuals at their respective year-end.

N.B. Actual NCC changes over time for maturity factor through future years.



NCC-The expected future cost of new claims for the year. It is one of the elements used to determine premium rates.

The Investments area has undertaken a process to update its Strategic Investment Plan to ensure it aligns with the WSIB's future strategic priorities. In doing so, additional stress testing was undertaken to examine a wide range of possible future outcomes and investment returns. Ultimately, these possible outcomes may influence the asset allocation of the investments.

The Investment Management Corporation of Ontario ("IMCO") continues to execute the WSIB's current Strategic Investment Plan. During the quarter, we had the opportunity to review and comment on the development of IMCO's new Enterprise Risk Management Policy and Framework and Business Continuity policies, among others, as part of the WSIB's oversight of their operational processes.

The WSIB is currently reviewing some of the key parameters that govern funding, pricing and investment decisions, in alignment with a revised insurance funding risk appetite statement approved by the Board of Directors in December 2017.

Our mitigation of the risk includes but is not limited to:

- Conducting regular modeling 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;
- Coordinating asset-liability management processes including consideration of the impacts of economic and other risk factors on the funding position and desired level of margin funding;
- Assessing actual investment performance relative to expectations of the WSIB's Strategic Investment Plan;
- Executing the current Strategic Investment Plan to ensure strong investment governance, effective diversification of assets, efficient cost structure and rigorous risk management of investment assets;
- Conducting periodic Asset-Liability Studies and implementing a comprehensive investment risk model; and
- Monitoring for potential legislative changes that could impact benefit liabilities or costs.

Additionally, we continue to watch economic conditions and global events that might impact our investment performance and impact the Ontario economy. Of particular interest are the developments related to ongoing North America Free Trade Agreement negotiations as uncertainty may increase the volatility in the financial markets in the short-term and medium-term (impacting interest rates, foreign exchange, economic activity, and trade). Inflation is also expected to continue to rise above the Bank of Canada's 2% target this year from temporary factors such as higher energy prices and the impact of minimum wage hikes. The WSIB monitors these and other developments in consideration of potential adverse business or economic impacts on operations, funding and investments.

While the WSIB monitors a portfolio of significant enterprise risks affecting our business, the insurance funding risk is the risk from this portfolio that is of greatest importance with respect to the WSIB's 2018 First Quarter 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 15 of the Management's Discussion and Analysis of the WSIB's 2017 consolidated financial statements. No additional risk factors or changes to mitigation approaches have been noted as at March 31, 2018.

Sufficiency Ratio
March 31, 2018
Unaudited (millions of Canadian dollars)

Sufficiency Ratio

	Note(s)	Mar. 31 2018	Dec. 31 2017
Total assets	2,4	36,041	35,722
Less: Asset adjustment	2	(1,305)	(1,720)
Less: Sufficiency Ratio non-controlling interests	2	(3,118)	(3,072)
Sufficiency Ratio assets		31,618	30,930
Sufficiency Ratio liabilities	3	32,252	32,279
Sufficiency Ratio (assets divided by liabilities)		**98.0%**	**95.8%**

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

Notes to Sufficiency Statement
March 31, 2018
Unaudited (millions of Canadian dollars)

1. Governing regulation and Sufficiency Ratio calculation

Ontario Regulation 141/12 under the WSIA, as amended by *Ontario Regulation 338/13* (collectively, the "Ontario Regulations"), 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%

The Ontario Regulations state 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.

The details of the insurance fund assets, known as Sufficiency Ratio assets, are described in note 2 below. The insurance fund liabilities, known as Sufficiency Ratio liabilities, are described in note 3.

2. Sufficiency Ratio assets

Assets for the purposes of the Sufficiency Ratio calculation consist of the total assets of the WSIB less the interests in those assets held by third parties (non-controlling interests). The deduction of assets held by third parties is necessary as the total assets include portions of investments to which third parties ultimately have rights (for example, the assets of the Employees' Pension Plan) and therefore would not be appropriate to include in the Sufficiency Ratio assets.

When determining the Sufficiency Ratio assets, for the Sufficiency Ratio calculation, we include assets invested in financial markets as well as other assets such as, but not limited to, cash, employer premium receivables, the value of internally developed software, and WSIB-owned land and buildings.

The total assets on International Financial Reporting Standards ("IFRS") basis as at March 31, 2018 were $36,041 (December 31, 2017 - $35,722). Additional details of the breakdown of the assets are shown in note 4.

Summary of Significant Accounting Policies - Assets

Assets used in the Sufficiency Ratio calculation which 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 March 31, 2018, the Sufficiency Ratio assets reflect an asset adjustment of $1,305 (December 31, 2017 – $1,720) representing the unrecognized investment returns in excess of the expected long-term annual rate of return assumption, net of investment expenses.

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March 31, 2018
Unaudited (millions of Canadian dollars)

The development of the asset adjustment is detailed as follows:

	Dec. 31 2014	Dec. 31 2015	Dec. 31 2016	Dec. 31 2017	Mar. 31 2018
Fair value of invested assets	23,739	26,301	29,366	33,996	34,338
Add: Cash transfers in last month of period	(21)	11	(36)	(44)	(82)
Adjusted fair value of invested assets[1]	23,718	26,312	29,330	33,952	34,256
Less: Invested assets at expected rate of return[2]	22,870	26,329	29,070	32,200	34,543
Investment returns in excess of expectations[3], gain/(loss)	848	(17)	260	1,752	(287)
Add: Unrecognized investment returns at prior period end	971	1,407	981	779	1,720
Total unrecognized investment returns, gains/(losses)	**1,819**	**1,390**	**1,241**	**2,531**	**1,433**
Amount to be recognized from:					
2018 investment return loss	-	-	-	-	14
2017 investment return gain	-	-	-	(350)	(88)
2016 investment return gain	-	-	(52)	(52)	(13)
2015 investment return loss	-	4	3	3	1
2014 investment return gain	(170)	(170)	(170)	(169)	(42)
2013 investment return gain	(242)	(243)	(243)	(243)	-
Total recognized investment returns in current year	(412)	(409)	(462)	(811)	(128)
Total unrecognized investment returns at end of period[4]	**1,407**	**981**	**779**	**1,720**	**1,305**

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 expected long-term annual rates of return have varied by year and are as follows:

Year	2014	2015	2016	2017	2018
Expected long-term annual rate of return	6.00%	6.00%	5.25%	4.75%	4.75%

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

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 returns as at March 31, 2018**	**Remainder of 2018**	**2019**	**2020**	**2021**	**2022**
2018	(273)	44	57	58	57	57
2017	1,314	(262)	(351)	(350)	(351)	-
2016	143	(39)	(52)	(52)	-	-
2015	(6)	3	3	-	-	-
2014	127	(127)	-	-	-	-
	1,305	**(381)**	**(343)**	**(344)**	**(294)**	**57**

Notes to Sufficiency Statement
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Unaudited (millions of Canadian dollars)

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

	Mar. 31 2018	**Dec. 31 2017**
Fair value of non-controlling interests	3,231	3,228
Less: Asset adjustment	(113)	(156)
Sufficiency Ratio non-controlling interests	3,118	3,072

3. Sufficiency Ratio liabilities

Liabilities for the purposes of the Sufficiency Ratio calculation include all liabilities as shown in the unaudited interim consolidated financial statements, which include the following:

- Benefit liabilities represent the present value of the estimated future payments for reported and unreported claims from people with work-related injuries or illnesses, of Schedule 1 employers, incurred on or prior to the reporting date.
- Loss of Retirement Income Fund liability represents accumulated contributions made to the fund on behalf of/by people with work-related injuries or illnesses and the accumulated investment returns achieved.
- Employee benefit plans liability consists of the WSIB employees' pension, post-employment and long-term benefits plans obligations less any assets held for these benefits.
- Other liabilities such as payables and other liabilities, derivative liabilities, and long-term debt.

Additional details of the liabilities may be found in the WSIB's 2017 annual consolidated financial statements.

Summary of Significant Accounting Policies - 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 4.50% (December 31, 2017 – 4.50%) per annum, as described in note 18 of the WSIB's 2017 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 5.20% (December 31, 2017– 5.20%) 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 unaudited interim consolidated financial statements. The IFRS discount rate, a weighted average of 3.55% (December 31, 2017 – 3.45%) 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 $882 (December 31, 2017 - $925).

Notes to Sufficiency Statement
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Unaudited (millions of Canadian dollars)

- All other liabilities were determined in accordance with IFRS.

The Sufficiency Ratio liabilities are $32,252 (December 31, 2017 - $32,279) which includes the adjustment of $882 (December 31, 2017 - $925). Additional details of the breakdown of the liabilities are shown in note 4.

Notes to Sufficiency Statement
March 31, 2018
Unaudited (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 March 31, 2018 is provided below. The unaudited interim consolidated statements of financial position presented on an IFRS basis are from the WSIB's unaudited interim consolidated financial statements. Explanatory notes follow the reconciliation below.

	March 31, 2018			December 31, 2017		
	IFRS Basis	**Adjust-ments**	**Sufficiency Ratio Basis**	**IFRS Basis**	**Adjust-ments**	**Sufficiency Ratio Basis**
Assets						
Cash and cash equivalents	2,078	-	2,078	2,586	-	2,586
Receivables and other assets	1,492	-	1,492	1,387	-	1,387
Investments	32,175	(1,305)[1]	30,870	31,447	(1,720)[1]	29,727
Property, equipment and intangible assets	296	-	296	302	-	302
Total assets	**36,041**	**(1,305)**	**34,736**	**35,722**	**(1,720)**	**34,002**
Liabilities						
Payables and other liabilities	1,118	-	1,118	1,185	-	1,185
Derivative liabilities	109	-	109	88	-	88
Long-term debt	116	-	116	115	-	115
Loss of Retirement Income Fund liability	1,913	-	1,913	1,915	-	1,915
Employee benefit plans liability	1,556	(882)[2]	674	1,611	(925)[2]	686
Benefit liabilities	28,322	-	28,322	28,290	-	28,290
Total liabilities	**33,134**	**(882)**	**32,252**	**33,204**	**(925)**	**32,279**
Net (deficiency of) assets						
Deficit	(524)	(310)	(834)	(792)	(639)	(1,431)
Accumulated other comprehensive income	200	-	200	82	-	82
Unfunded liability attributable to WSIB stakeholders	**(324)**	**(310)**	**(634)**	**(710)**	**(639)**	**(1,349)**
Non-controlling interests	3,231	(113)[1]	3,118	3,228	(156)[1]	3,072
Total net (deficiency of) assets	**2,907**	**(423)**	**2,484**	**2,518**	**(795)**	**1,723**
Total liabilities & net (deficiency of) assets	**36,041**	**(1,305)**	**34,736**	**35,722**	**(1,720)**	**34,002**
Sufficiency Ratio			**98.0%**			**95.8%**

1. Reflects the asset adjustment of our total assets shown on our unaudited interim consolidated statements of financial position at the expected long-term annual rate of return of 4.75% (December 31, 2017 – 4.75%) resulting in a decrease of $1,305 (December 31, 2017 – $1,720), which includes the interests in those assets held by third parties (non-controlling interests) of $113 (December 31, 2017 – $156).

2. Reflects the use of a going concern discount rate of 5.20% (December 31, 2017 – 5.20%). For the purposes of the unaudited interim consolidated financial statements, an accounting weighted average discount rate of 3.55% was used as at March 31, 2018 (December 31, 2017 – 3.45%). 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.