Workplace Safety and Insurance Board

Second Quarter **2018** Sufficiency Report

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President and CEO's message

Q2 2018 marks an important turning point for the WSIB. After reaching a high of $14.2 billion in 2011, we have completely eliminated our Unfunded Liability (UFL) almost a decade ahead of the legislated deadline of December 31, 2027. This achievement means that for the first time in recorded history, the WSIB has reached a funded position over 100% on a Sufficiency Ratio basis. We are now positioned better than ever to ensure the long-term sustainability needed to protect benefits and make ongoing service improvements for those we serve.

I am also pleased to share that we have continued to see solid results through the second quarter of 2018 in health and safety and return-to-work in Ontario. In Q2 2018 fewer claims experienced permanent impairments than in any quarter in at least the past eight years (tied with Q3 2014). Instances of permanent impairment were present in 5.2% of claims in Q2 2018 compared to 5.7% of claims in Q2 2017 and 5.3% in Q1 2018.

Also, despite increases in registered and lost-time claim volumes since 2017, we still exceeded our target of 90% for producing timely eligibility decisions. Ninety-three per cent of eligibility decisions were made within two weeks during Q2 2018.

This quarter, net premiums increased by $29 million or 2.3% compared to Q2 2017, despite a 3.3% reduction to the average premium rate. This resulted from strong insurable earnings growth primarily in the construction, healthcare, manufacturing, services and transportation industries.

With the UFL eliminated, we plan to phase out the "past claims cost" over the next two years, which will lead to additional reductions in the average premium rate. Our focus will also be on transitioning to the new rate framework and adjusting premium rates to ensure businesses are paying rates that are more reflective of their experience.

Making the most of this upward momentum and the renewed commitment to our financial sustainability, we will continue to focus on our core mandate – promoting workplace health and safety, and improving recovery and return to work outcomes.

Thomas Teahen
President and Chief Executive Officer
September 19, 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 and six months ended June 30, 2018 (the “unaudited interim consolidated financial statements”).

Thomas Teahen
President and Chief Executive Officer
September 19, 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 six months ended June 30, 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)	Jun. 30 2018	Dec. 31 2017	Change $	Change %
Sufficiency Ratio assets	32,593	30,930	1,663	5.4
Sufficiency Ratio liabilities	(31,940)	(32,279)	339	1.1
Net assets (unfunded liability) on a Sufficiency Ratio basis	653	(1,349)	2,002	
Sufficiency Ratio	**102.0%**	**95.8%**		**6.2**

As shown above, as at June 30, 2018, the WSIB had net assets on a Sufficiency Ratio basis of $653 million. This means that the Sufficiency Ratio assets exceed the Sufficiency Ratio liabilities and the WSIB had 102.0% 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 102.0%, as at June 30, 2018, was significantly higher than the 80% funding level required on December 31, 2022 and exceeds 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.

We achieved a Sufficiency Ratio of 100%, ahead of schedule, through the application of employer premiums, improvements in claim durations, better than expected investment returns and a decrease in lost-time injuries.

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.

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. In addition, it includes the risk of holding excess funding beyond 100%, potentially creating reputational harm or loss of control over the redistribution of reserves.

The risk remains moderate as the Sufficiency Ratio is now at 100%. As the WSIB proceeds forward above a 100% Sufficiency Ratio, required action will need to be taken to provide guidance in this new environment.

To safeguard benefits and offer premium rate stability for employers, the WSIB must ensure that it can withstand future economic shocks. For this reason, the WSIB is working to move beyond the legislated 100% funding requirement, and build a responsible reserve to offset economic volatility. The progress made toward financial sustainability will allow the WSIB to reduce the average 2019 premium rates in addition to the cumulative reduction of nearly 10% experienced in the last two years.

New Claim Cost (NCC) Recovery in Premium Rate

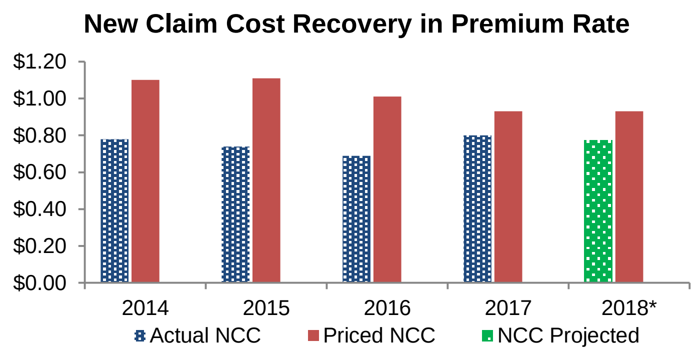
Threshold: 100% of "Actual NCC", including the recovery of appropriate prudency margins in annual premium rate setting ("Priced NCC").

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 is carrying on with its process to update the Strategic Investment Plan to ensure it aligns with WSIB's future strategic priorities. In doing so, scenario stress testing continues in consideration of a wide range of possible future outcomes and investment returns to assist in informing our funding policy and approach.

The Investment Management Corporation of Ontario ("IMCO") continues to grow their in-house specialized talent pool to assist the WSIB with its investments goals and strategies. As their internal operations and strategies expand and mature, the WSIB will benefit from IMCO's enhanced analytical systems and dedicated and experienced talent in driving our investment results.

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.

There are global economic headwinds that may materialize in the short term due to growing inflation and ongoing global trade disputes and their impacts on financial and business markets. Our investment portfolio asset mix is designed for long- term growth that optimizes our risk adjusted returns prudently and effectively throughout economic market fluctuations. The WSIB continues to monitor economic indicators 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 Second Quarter 2018 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 June 30, 2018.

Sufficiency Ratio
June 30, 2018
Unaudited (millions of Canadian dollars)

Sufficiency Ratio

	Note(s)	Jun. 30 2018	Dec. 31 2017
Total assets	2,4	37,026	35,722
Less: Asset adjustment	2	(1,269)	(1,720)
Less: Sufficiency Ratio non-controlling interests	2	(3,164)	(3,072)
Sufficiency Ratio assets		32,593	30,930
Sufficiency Ratio liabilities	3	31,940	32,279
Sufficiency Ratio (assets divided by liabilities)		**102.0%**	**95.8%**

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

Notes to Sufficiency Statement
June 30, 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 June 30, 2018 were $37,026 (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 June 30, 2018, the Sufficiency Ratio assets reflect an asset adjustment of $1,269 (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.

Notes to Sufficiency Statement
June 30, 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	Jun. 30 2018
Fair value of invested assets	23,739	26,301	29,366	33,996	35,194
Add: Cash transfers in last month of period	(21)	11	(36)	(44)	(83)
Adjusted fair value of invested assets[1]	23,718	26,312	29,330	33,952	35,111
Less: Invested assets at expected rate of return[2]	22,870	26,329	29,070	32,200	35,297
Investment returns in excess of expectations[3], gain/(loss)	848	(17)	260	1,752	(186)
Add: Unrecognized investment returns at prior period end	971	1,407	981	779	1,720
Total unrecognized investment returns	**1,819**	**1,390**	**1,241**	**2,531**	**1,534**
Amount to be recognized from:					
2018 investment return loss	-	-	-	-	(18)
2017 investment return gain	-	-	-	350	175
2016 investment return gain	-	-	52	52	26
2015 investment return loss	-	(4)	(3)	(3)	(2)
2014 investment return gain	170	170	170	169	84
2013 investment return gain	242	243	243	243	-
Less: Total recognized investment returns in current year	**412**	**409**	**462**	**811**	**265**
Total unrecognized investment returns at end of period[4]	**1,407**	**981**	**779**	**1,720**	**1,269**

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 June 30, 2018**	**Remainder of 2018**	**2019**	**2020**	**2021**	**2022**
2018	(168)	19	37	38	37	37
2017	1,227	(175)	(351)	(350)	(351)	-
2016	130	(26)	(52)	(52)	-	-
2015	(5)	2	3	-	-	-
2014	85	(85)	-	-	-	-
	1,269	**(265)**	**(363)**	**(364)**	**(314)**	**37**

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

	Jun. 30 2018	**Dec. 31 2017**
Fair value of non-controlling interests	3,272	3,228
Less: Asset adjustment	(108)	(156)
Sufficiency Ratio non-controlling interests	3,164	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 3.65% (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 $814 (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 $31,940 (December 31, 2017 - $32,279) which includes the adjustment of $814 (December 31, 2017 - $925). Additional details of the breakdown of the liabilities are shown in note 4.

Notes to Sufficiency Statement
June 30, 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 June 30, 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.

	June 30, 2018			December 31, 2017		
	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis
Assets						
Cash and cash equivalents	2,156	-	2,156	2,586	-	2,586
Receivables and other assets	1,626	-	1,626	1,387	-	1,387
Investments	32,952	(1,269)[1]	31,683	31,447	(1,720)[1]	29,727
Property, equipment and intangible assets	292	-	292	302	-	302
Total assets	**37,026**	**(1,269)**	**35,757**	**35,722**	**(1,720)**	**34,002**
Liabilities						
Payables and other liabilities	1,213	-	1,213	1,185	-	1,185
Derivative liabilities	110	-	110	88	-	88
Long-term debt	115	-	115	115	-	115
Loss of Retirement Income Fund liability	1,929	-	1,929	1,915	-	1,915
Employee benefit plans liability	1,479	(814)[2]	665	1,611	(925)[2]	686
Benefit liabilities	27,908	-	27,908	28,290	-	28,290
Total liabilities	**32,754**	**(814)**	**31,940**	**33,204**	**(925)**	**32,279**
Net assets						
Reserves (deficit)	700	(347)	353	(792)	(639)	(1,431)
Accumulated other comprehensive income	300	-	300	82	-	82
Net assets (unfunded liability) attributable to WSIB stakeholders	**1,000**	**(347)**	**653**	**(710)**	**(639)**	**(1,349)**
Non-controlling interests	3,272	(108)[1]	3,164	3,228	(156)[1]	3,072
Total net assets	**4,272**	**(455)**	**3,817**	**2,518**	**(795)**	**1,723**
Total liabilities and net assets	**37,026**	**(1,269)**	**35,757**	**35,722**	**(1,720)**	**34,002**
Sufficiency Ratio			**102.0%**			**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 $1,269 (December 31, 2017 – $1,720), which includes the interests in those assets held by third parties (non-controlling interests) of $108 (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 3.65% was used as at June 30, 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.