Workplace Safety and Insurance Board

Sufficiency Plan – Annual Update

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1 Purpose

A description of the purpose of the Sufficiency Plan update.

The Workplace Safety and Insurance Board (the "WSIB") is required to provide an annual update of the Sufficiency Plan to the Minister of Labour by June 30th. This Sufficiency Plan update reflects our financial results for 2015 and updated forward-looking assumptions and projections demonstrating how we plan to reach mandated Sufficiency Ratios in accordance with the regulations. We provide a comparison to previously submitted updates and our original sufficiency plan.

2 Overview

An explanation of our regulations that apply to the Sufficiency Ratio and the Sufficiency Plan.

The *Workplace Safety and Insurance Act*, *1997 (Ontario)* (the "WSIA" or the "Act") requires the WSIB to maintain the Insurance Fund such that the amount in the fund is sufficient to meet its obligations under the WSIA and to make payments to injured workers and their families when they come due. The WSIB charges premiums to Ontario employers from which to pay claims from injured workers.

Ontario Regulation 141/12, which came into force on January 1, 2013, requires the WSIB to meet prescribed Sufficiency Ratios by the following dates:

- 60 per cent on or before December 31, 2017
- 80 per cent on or before December 31, 2022
- 100 per cent on or before December 31, 2027

As required by *Ontario Regulation 141/12*, we calculate our Sufficiency Ratio by dividing the value of assets measured in accordance with accepted accounting principles by total liabilities as determined by accepted actuarial practices for actuarial valuations. However, it did not permit the actuarial valuation of investment assets for the purposes of the Sufficiency Ratio.

Ontario Regulation 338/13 came into force on January 1, 2014, which requires the WSIB to value both our assets and liabilities using actuarial valuations that are consistent with accepted actuarial practices for going concern valuations. The investment gains and losses that differ from our long-term expected rate of return are amortized straight-line over a five-year period, thus moderating the effect of investment market volatility on our financial results. Our Sufficiency Ratio was recalculated to reflect the *Ontario Regulation 338/13* methodology retrospectively as at January 1, 2013, the date when we first began reporting the Sufficiency Ratio.

The WSIB reports the Sufficiency Ratio pursuant to these two regulations (collectively, the "Sufficiency Regulation").

3 The Year in Review

A review of the WSIB's results since the last Sufficiency Plan submission.

In 2015, the WSIB continued to demonstrate improvement in its operations. In accordance with the Sufficiency Regulation, the Sufficiency Ratio improved 7.3% to 77.9% at December 31, 2015 compared to 71.6% at December 31, 2014.

For the year ended December 31, 2015, the WSIB generated total comprehensive income of $1.4 billion reflecting a 5.8% investment return on investments, on an accounting basis, and continued strong operating performance. We realized an increase in actuarial valuation of benefit liabilities reflecting a change in indexation legislation and the strengthening of valuation assumptions and methodologies, partially offset by the continuation of favourable experience.

On a sufficiency basis in 2015, our unfunded liability (the "UFL") decreased $1.7 billion or 19.7% to $7.0 billion. Our sufficiency basis assets increased $3.0 billion and our employee benefit plans liability decreased $53 million or 6.5% to $757 million.

Effective January 1, 2016, the long-term rate of return was reduced from 6.00% to 5.25% (net) subsequent to the annual review by the Investment Committee and approval by the Board of Directors at end of 2015. The decline in the target return has, among other factors, resulted in a reduction in the going concern actuarial liability discount rate used to value both our Insurance Fund and our employee benefit plans liability. As at December 31, 2015, the discount rate used for going concern valuation was changed to 4.75% (2014 – 4.75% to 2017 and 5.25% thereafter) for our Insurance Fund and changed to 5.20% (2014 – 4.75% to 2017 and 5.25% thereafter) for our employee benefit plans liability.

A reconciliation of the UFL attributable to WSIB stakeholders between the International Financial Reporting Standards (the "IFRS") basis and the sufficiency basis is presented as following:

(millions of Canadian dollars)	**December 31 2015**	**December 31 2014**
UFL attributable to WSIB stakeholders on an IFRS basis	6,599	7,890
Adjustments per *Ontario Regulation 141/12,* as amended by *Ontario Regulation 338/13*		
Change in valuation of investment assets	981	1,407
Change in valuation of Employees' Benefit Plans liability[1]	(465)	(417)
Change in valuation of investment assets attributable to non-controlling interest	(131)	(183)
UFL attributable to WSIB stakeholders on Sufficiency Ratio basis	**6,984**	**8,697**

Notes:

1. 2014 adjustment to Employees' Benefit Plans liability reflects the accepted actuarial practices for going concern valuations per *Ontario Regulation 141/12* ($577 million) partially offset by unrecognized investment gains and losses that differ from our long-term expected return on Employees' Pension assets per *Ontario Regulation 338/13* ($160 million). 2015 adjustment reflects the impact of *Ontario Regulation 141/12* ($576 million) partially offset by the impact of *Ontario Regulation 338/13* ($111 million).

We have updated the Sufficiency Ratio projections to reflect 2015 results, changes in our underlying assumptions, impact of legislative amendments to indexing factor and the expected impact of *Bill 163 Supporting Ontario's First Responders Act (Posttraumatic Stress Disorder)* which was passed on April 5, 2016.

Continuing with the practice we established in our 2014 update, we include an adverse scenario which demonstrates the sensitivity of the Sufficiency Ratio to adverse conditions.

4 Progress from our original Sufficiency Plan

Since our original Sufficiency Plan submission in June 2013, excellent operational results and strong investment returns have resulted in better than anticipated progress towards full funding. For the first time ever, we released an Economic Statement in November 2015 and discussed the opportunity to provide premium rate relief as early as 2017 to aid in the stimulation of the Ontario economy. The WSIB publishes the average Schedule 1 premium rate annually. While 2017 premium rates have not yet been established, we have contemplated rate decreases consistent with the 2015 Economic Statement in this plan. The 2016 Economic Statement when released in the Fall will incorporate the approved 2017 premium rates.

5 Impact of amending consolidated financial statements

During 2016, management identified a recurring issue impacting premium receivables and revenues in the cumulative amount of $208 million as of December 31, 2014. Consequently, the WSIB has amended the consolidated financial statements and restated the comparative information by reducing the unfunded liability and increasing premium receivables and revenue retrospectively starting from the beginning balance of 2013.

The impact of the restatements to the Sufficiency Ratio is summarized as following:

	Reported Sufficiency Ratio in previous Sufficiency Plan	Restated Sufficiency Ratio	Increase of Sufficiency Ratio
2013 restated in 2014	63.0%	63.6%	0.6%
2014	70.9%	71.6%	0.7%

6 Impact of legislative amendments to indexing factor

On December 10, 2015, the Ontario government passed the *Budget Measures Act, 2015*, which amended *Chapter 38, Schedule 23, Sections 49, 50 and 51* under the WSIA. Effective January 1, 2018, the alternate and prescribed temporary indexing factors will be replaced by one indexing factor. The new indexing factor will be based on the percentage change over a 12-month period in the Consumer Price Index measured at the previous October and will be directly applied to the benefit amount. In the interim, *Ontario Regulation 454/09* prescribes temporary indexing factors of 0.5% for 2016 and 1.0% for 2017 with the current indexing methodology.

As a result of this amendment, our change in actuarial valuation of benefit liabilities included a charge of $948 million at December 31, 2015.

7 Expected Impact of Bill 163

On April 5, 2016, Bill 163, *Supporting Ontario's First Responders Act (Posttraumatic Stress Disorder), 2016* ("Bill 163") was passed by the Legislature. This amends the WSIA with respect to first responders diagnosed with posttraumatic stress disorder ("PTSD"). The amendments provide that if a first responder is diagnosed with PTSD and meets specific employment and diagnostic criteria, that first responder's PTSD is presumed to have arisen out of and in the course of his or her employment, unless the contrary is shown. In specific circumstances, the presumption will apply to first responders diagnosed with PTSD up to 24 months before the coming-in-force date, as well as those claims for which a decision is pending from either the WSIB or the Workplace Safety and Insurance Appeals Tribunal on the date the legislation comes into force.

The estimated impact of this legislative amendment of $35 million is reflected in the First Quarter 2016 Report to Stakeholders.

8 Sufficiency Ratio Calculation Methodology

A description of the components and basis of measurement for the Sufficiency Ratio.

The Sufficiency Ratio was introduced through the Sufficiency Regulation. The WSIB concluded that the objective of the Sufficiency Ratio should be: ***"To provide an objective measure to track achievement toward legislated and regulatory requirements and demonstrate sustainable funding."***

The Sufficiency Regulation permits the actuarial valuation of investment assets for the purposes of the Sufficiency Ratio and allows the WSIB to amortize investment gains and losses that differ from the long-term expected rate of return over a five-year period. The WSIB currently expects a long-term expected rate of return on investments of 5.25% (2015 – 6.00%). Amortizing the investments gains and losses that differ from the long-term expected rate of return over five years on a straight-line basis is consistent with guidance in the *Pension Benefits Act of Ontario* and is used by many large pension plans in Ontario.

The WSIB's Sufficiency Statement presents the Sufficiency Ratio to stakeholders on a quarterly basis. The Sufficiency Statement provides reconciliation between the consolidated statement of financial positions prepared in accordance with the IFRS and the assets and liabilities for Sufficiency Ratio purposes. The detailed basis of measurement for the purposes of the Sufficiency Ratio under the Sufficiency Regulation is described below.

Assets

For the purposes of the Sufficiency Ratio calculation, the WSIB's assets consist of the total consolidated assets of the WSIB less the interests in those assets of third parties, as represented by the balance of non-controlling interest on an amortized basis as described above. The value for purposes of the Sufficiency Ratio has been adjusted from the consolidated financial statements to reflect the WSIB's expected return on investments, amortizing the difference between expected and actual returns over five years on a straight-line basis.

The current unamortized balance representing the cumulative investment returns in excess of the long-term expected return since 2013 was $981 million at December 31, 2015. This balance will fluctuate depending on the WSIB's actual investment income as compared to expectations of 5.25% (2015 – 6.00%) per annum and will be amortized into future income and UFL on the sufficiency basis over the remaining amortization period.

Liabilities

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

Based on the WSIB's Sufficiency Ratio methodology under the Sufficiency Regulation, the Sufficiency Ratio as at December 31, 2015 was 77.9% corresponding to a UFL of $6,984 million on a sufficiency basis.

9 Risk Identification and Mitigation Strategies

A discussion of the significant financial risks and mitigation strategies for those risks.

A discussion of the significant risk factors that affect the operations of the WSIB is included in the Management's Discussion and Analysis section of the 2015 Annual Report. Further discussion of Insurance Funding Risk factors and mitigation of identified risks are included in the 2015 Sufficiency Report to Stakeholders and the First Quarter 2016 Sufficiency Report to Stakeholders. The WSIB believes the significant risks outlined in these reports have not changed materially.

In order to assess the WSIB's ability to absorb financial risks, a scenario was developed containing adverse conditions in which Insurable Earnings only grow at 50% of the expected "normal" growth rate for a period of three years and investment markets drop by 1% followed by a 15% drop in the following year. This scenario mimics, to some degree, the WSIB's experience in 2008 and the ensuing recession. Under this scenario, the WSIB held all other assumptions constant. Our projections under this adverse scenario indicate that we would still achieve the required Sufficiency Ratios; however, with much less margin for other adverse conditions.

Once the regulated Sufficiency Ratio requirements as set out in *Ontario Regulation 141/12* are attained, WSIB plans to reach a level of funding currently targeted between 115% and 125% Sufficiency Ratio in order to achieve Enhanced Assurance[1] and maintain the Insurance Fund at or above 100% with 95% probability. Such a margin will ensure, with high probability, the WSIB will not fall below a 100% Sufficiency Ratio.

Note 1: Enhanced Assurance represents a high degree of confidence in achieving the regulated Sufficiency Ratio requirements and maintaining Full Funding once reached, as determined by periodic asset-liability studies, where "Full Funding" represents the level of funding sufficiency that provides Enhanced Assurance that the Sufficiency Ratio will not fall below 100%.

Schedule A: Update of Significant Assumptions and Projections

An update of significant financial assumptions and projections in the Sufficiency Plan compared to the original Sufficiency Plan submission.

The WSIB has made the following changes to the significant assumptions for the Sufficiency Plan 2016 update to reflect recent experience and our long-term outlook as summarized below:

	Notes	Original Sufficiency Plan	2016 Base Case	Adverse Scenario
Revenues	1			
Average Premium Rate		$2.46	$2.57 in 2016; 10%-15% reduction in premium rates over a five year period.	No change
Insurable Earnings		3.0% growth	2.5% growth to 2017; 2.0% thereafter	50% of normal growth over 3 years; 2.0% thereafter
Investment Return, net		3.5% to 2017 5.5% thereafter	3.5% to 2019; 5.25% thereafter	1% loss 2016; 15% loss 2017; 3.5% 2018-2019; 5.25% thereafter
Benefit costs	2			
NCC		$1.10	$0.85 2016 $0.93 thereafter	No change
Benefit Coverage		No change	No change with the exception of PTSD and partial indexation rate	No change
Health Care Escalation		4.5%	4.0%	No change
Claims Duration		No improvement	Stable – no future improvement	Stable – no future improvement
Lost Time Injury Claims		No improvement	No change	No change
Administration	3	Stable at $800 million then grow at 2% thereafter	$862 million	No change

Notes:

1. Revenues

- Average premium rate of $2.57 per $100 of insurable earnings. The increase in the weighted average premium rate reflects the change in industry mix, with a higher growth in insurable earnings of higher rate groups. This is a change from the original Sufficiency Plan, which included an average premium rate of $2.46 per $100 of payroll. There have been no premium rate increases, with the exception of Rate Group 845, Local Government Service, to reflect the increased costs associated with legislation passed relating to presumptive cancers for firefighters. The current base case assumes a 10% to 15% reduction in the average premium rate over five years, consistent with the 2015 Economic Statement. Starting in 2019, the average premium rate is assumed to be net of employer incentive programs under the new Rate Framework.

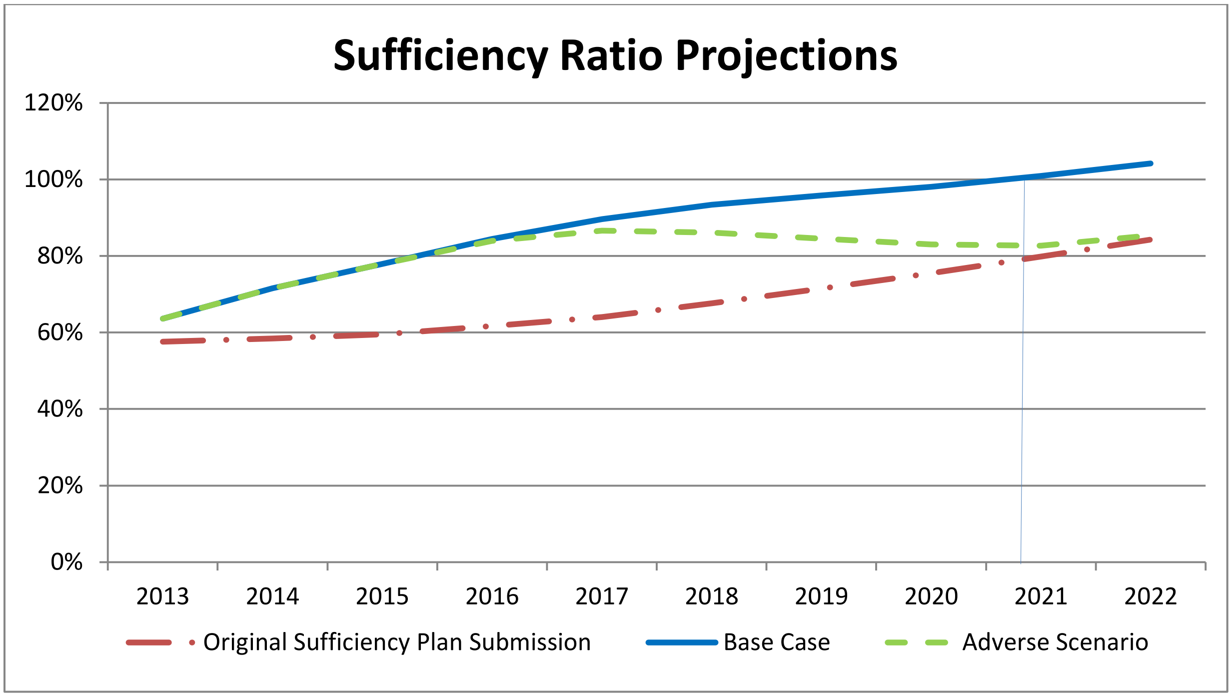
- Insurable earnings are expected to grow at 2.5% to 2017 and 2.0% thereafter annually (a combination of wage and employment growth). In the adverse scenario we project a recessionary environment in which insurable earnings grow at only 50% of normal economic activity for three years.
- Investment returns are expected to be 3.5% from 2016 to 2019 and 5.25% thereafter. In light of recent economic conditions, we have determined that it is necessary to lower our long-term return target effective 2016 from 6.0% to 5.25% (net). The adverse scenario includes a 1% loss on investments for the first year followed by a 15% loss in the second year, followed by two years at 3.5% positive return and then 5.25% thereafter, which is analogous to the returns experienced in the 2008 great recession.

2. Benefit costs
   - New Claims Costs ("NCC") is $0.85 per $100 of insurable earnings in 2016 and $0.93 thereafter. This is $0.24 and $0.17 lower than the original Sufficiency Plan respectively due to more favourable claims experience in recent years notwithstanding an increase related to the addition of presumptive cancers for firefighters.
   - No change in benefit coverage or levels, with the exception of PTSD and partial indexation rate noted above reflecting recent legislative amendments.
   - Health care costs will grow at 4.0% per year. This is a decrease from the original Sufficiency Plan of 4.5% as our health care cost experience has been favourable and we expect the experience will continue.
   - Duration of claims consistent with actuarial valuation assumptions as at December 31, 2015.
   - No improvement in Lost Time Injury claims. No change from the original Sufficiency Plan.

3. Administration
   - Administration and other expenses are expected to moderately increase due to higher employee costs and information technology transformation.
   - CPI will grow by 2.0% annually, a change from the original Sufficiency Plan of 2.5%. Inflation remains steady at historical lows. We have reduced the long-term inflation target to match the Bank of Canada's long-term target.

Based on the above assumptions, the WSIB concluded it has a high probability of reaching 80% funding by 2022.

Set forth below are the WSIB's Sufficiency Ratio results for 2015 and projections from 2016 through 2022 as well as our adverse scenario. These projections are based on current expectations and various assumptions and analyses made by us in light of our experience and our perceptions of historical trends, current conditions and expected future developments and other factors we believe are appropriate in the circumstances. These projections involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated.



Based on the assumptions outlined above, the WSIB projects the following Sufficiency Ratios as at December 31 of the respective year, showing the variances of our current base case and adverse scenario (using actuals for December 31, 2013 to 2015) comparing with the original Sufficiency Plan submission:

Year	Original Sufficiency Plan Submission (A)	Base Case (B)	Adverse Scenario (C)	Variance to Base Case (B – A)	Variance to Adverse Scenario (B – C)
2013	57.6%	63.6%*	63.6%*	6.0%	0.0%*
2014	58.4%	71.6%*	71.6%*	13.2%	0.0%*
2015	59.5%	77.9%*	77.9%*	18.4%	0.0%*
2016	61.7%	84.4%	83.9%	22.7%	0.5%
2017	**64.0%**	**89.6%**	**86.6%**	**25.6%**	**3.0%**
2018	67.6%	93.4%	86.1%	25.8%	7.3%
2019	71.5%	95.8%	84.5%	24.3%	11.3%
2020	75.5%	98.1%	83.0%	22.6%	15.1%
2021	79.8%	100.9%	82.7%	21.1%	18.2%
2022	**84.3%**	**104.2%**	**85.4%**	**19.9%**	**18.8%**

* From 2013 to 2015 Sufficiency Ratios in Base Case and Adverse Scenario columns are the actual results. Remaining Sufficiency Ratios are projections only.