Workplace Safety and Insurance Board

Sufficiency Plan – Annual Update

June 18, 2015

Workplace Safety and Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

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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 2014 and updated forward-looking assumptions and projections demonstrating how we plan to reach mandated Sufficiency Ratios in accordance with the regulations.

2 Overview

An explanation of our regulations and description of the impact of Ontario Regulation 338/13 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. 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, changing the method that the WSIB is permitted to use to calculate its assets and liabilities for the purpose of reporting its Sufficiency Ratio pursuant to *Subsection 1 (3) of Ontario Regulation 141/12*. It requires the WSIB to value both our assets and liabilities using actuarial valuations that are consistent with accepted actuarial practices for going concern valuations. With respect to our assets, we now amortize our investment gains and losses that differ from our long-term expected rate of return straight-line over a five year period, thus moderating the effect of investment market volatility on our financial results. We have calculated our Sufficiency Ratio by applying the *Ontario Regulation 338/13* methodology retrospectively as at January 1, 2013, the date when we first began reporting the Sufficiency Ratio – see the reconciliation table in Section 3.

3 The Year in Review

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

In 2014, the WSIB continued to demonstrate improvement in its operations. In accordance with *Ontario Regulation 141/12*, as amended by *Ontario Regulation 338/13* effective January 1, 2014, the Sufficiency Ratio improved 7.9% to 70.9% at December 31, 2014 from 63.0% at December 31, 2013.

For the year ended December 31, 2014, the WSIB generated total comprehensive income of $2.8 billion reflecting a 10.3% investment return on investments, on an accounting basis, and continued strong operating performance. Additionally, we realized a net gain due to a change in actuarial valuation of benefit liabilities driven by favourable experience gains, partially offset by strengthened actuarial assumptions including a reduction in the discount rate.

On a sufficiency basis in 2014, our unfunded liability (the “UFL”) decreased $2.4 billion or 21.2% to $8.9 billion. Our sufficiency basis assets increased $2.6 billion and our employee benefit plans liability increased $43 million or 5.6% to $810 million.

Recent declines in the central bank and long term interest rates may impact our 6% long-term investment target return. We expect that a range of 5 - 6% will be a reasonable target going forward. This target is reviewed annually with the Investment Committee and finalized with the Board of Directors in the fourth quarter of each year. Once this work is finalized in 2015, it may result in a reduction of our long-term investment return expectations and impact our Sufficiency Ratio calculation going forward. The potential for a decline in the target return has, among other factors, resulted in a reduction in the actuarial liability discount rate. As at December 31, 2014, the discount rate for going concern valuation was reduced by 25 basis points to 4.75% to 2017 and 5.25% thereafter (2013 – 5.0% to 2017 and 5.5% thereafter).

We have updated the Sufficiency Ratio projections to reflect 2014 results, changes in our underlying assumptions and the implementation of *Ontario Regulation 338/13*.

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 2014**	**December 31 2013**
UFL attributable to WSIB stakeholders on an IFRS basis	8,098	10,638
Adjustments per *Ontario Regulation 141/12,* as amended by *Ontario Regulation 338/13*		
Change in valuation of investment assets	1,407	971
Change in valuation of Employees' Benefit Plans liability[1]	(417)	(153)
Change in valuation of investment assets attributable to non-controlling interest	(183)	(131)
UFL attributable to WSIB stakeholders on Sufficiency Ratio basis	**8,905**	**11,325**

Notes:

1. 2013 adjustment to Employees’ Benefit Plans liability was restated to reflect the accepted actuarial practices for going concern valuations per *Ontario Regulation 141/12* ($261 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* ($108 million). 2014 adjustment reflects the impact of *Ontario Regulation 141/12* ($577 million) partially offset by the impact of *Ontario Regulation 338/13* ($160 million).

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 Impact of Extending Cancer Coverage for Firefighters

A description of the impact of Ontario Regulation 253/07 on presumptive WSIA protection for Firefighters to the Sufficiency Ratio and the Sufficiency Plan.

The Ontario Government approved *Regulation 253/07* in May 2014. The regulation extends legislative presumptions under the WSIA to firefighters and fire investigators employed by, or firefighters who volunteer for, First Nations Bank Councils. The presumptions are a list of diseases that are presumed to be work-related for firefighters with certain years of service, unless the contrary is shown, and therefore compensable under the WSIA. Six new cancers were added to the list of prescribed diseases with breast cancer, multiple myeloma, testicular cancer and prostate cancer effective immediately. Lung cancer and skin cancer will be phased in by 2016 and 2017 respectively. As a result of these additional presumptive cancers, our UFL increased by $127 million at December 31, 2014 and the premium rate charged specifically to Rate Group 845 “Government and Related Services” increased by 28.5% as a result of this new legislation. In addition, our average new claims costs (the “NCC”) is estimated to increase for all sectors to $1.01 per $100 of insurable earnings, from the current $1.00.

5 Sufficiency Ratio Calculation Methodology

A description of the components and basis of measurement for the Sufficiency Ratio, updated for Ontario Regulation 338/13.

The Sufficiency Ratio was introduced through *Ontario Regulation 141/12*. 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.”*** *Ontario Regulation 338/13* does not change the objective of the Sufficiency Ratio.

Ontario Regulation 338/13 permits the actuarial valuation of investment assets for the purposes of the Sufficiency Ratio, whereas prior to this amendment, *Ontario Regulation 141/12* stipulated that investment assets be valued at market rates. Based on the new regulation, for the purpose of the Sufficiency Ratio calculation, the WSIB amortizes 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 return on investments of 6.0%.

Amortizing returns 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. This approach takes into account the unique business requirements of Canadian workers’ compensation systems, including the need for pricing stability (for employer premium rates) and benefit sustainability (for injured workers and their dependents). The amortization period of five years is also considered an appropriate length of time to reduce the volatility of investment returns without deferring gains or losses unduly into future periods.

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 *Ontario Regulation 338/13* 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 in 2013 and 2014 was $1,407 million at December 31, 2014. This balance will fluctuate depending on the WSIB's actual investment income as compared to expectations of 6% per annum and will be amortized into 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.

The definition and measurement of liabilities, for the purposes of the Sufficiency Ratio calculation, have not changed with the introduction of *Ontario Regulation 338/13*.

Based on the WSIB's Sufficiency Ratio methodology under *Ontario Regulation 338/13*, outlined above, the Sufficiency Ratio as at December 31, 2014 was 70.9% corresponding to a UFL of $8,905 million on a sufficiency basis.

6 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 2014 Annual Report. The WSIB believes the significant risks outlined in the Sufficiency Plan 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.

We are currently conducting analysis to determine the appropriate level of funding margin to sustain the WSIB through economic and other financial shocks while maintaining the regulated Sufficiency Ratio of 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 2015 update to reflect recent experience and our long-term outlook as summarized below:

	Notes	Original Sufficiency Plan	Base Case	Adverse Scenario
Revenues	1			
Average Premium Rate		$2.46	2.53	$2.53
Insurable Earnings		3% growth	1.7% growth in 2015/ 3.0% to 2017/ 2.5% thereafter	1.5% growth for three years, followed by 2.5% growth
Investment Return, net		3.5% to 2017/ 5.5% thereafter	No change	1% loss followed by a 15% loss followed by 3.5% then 5.5% thereafter
Benefit costs	2			
NCC		$1.10	$1.01	$1.01
Benefit Coverage		No change	No change with the exception of presumptive cancers	No change with the exception of presumptive cancers
Health Care Escalation		4.5%	4.0%	4.0%
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	No change	No change

Notes:

1. Revenues

- Average premium rate of $2.53 per $100 of insurable earnings. No increases in premium rates are assumed, with the exception of Rate Group 845 as a result of expanded coverage under the presumptive legislation for firefighters. 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.

- Insurable earnings are expected to grow at 1.7% in 2015, 3.0% to 2017 and 2.5% 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 of 3.5% for 2014 to 2017 and 5.5% thereafter. No change from the original Sufficiency Plan. The adverse scenario includes a loss on investments for the first year of 1% followed by a 15% loss in the next year, followed by two years at 3.5% positive return and then 5.5% thereafter.

2. Benefit costs

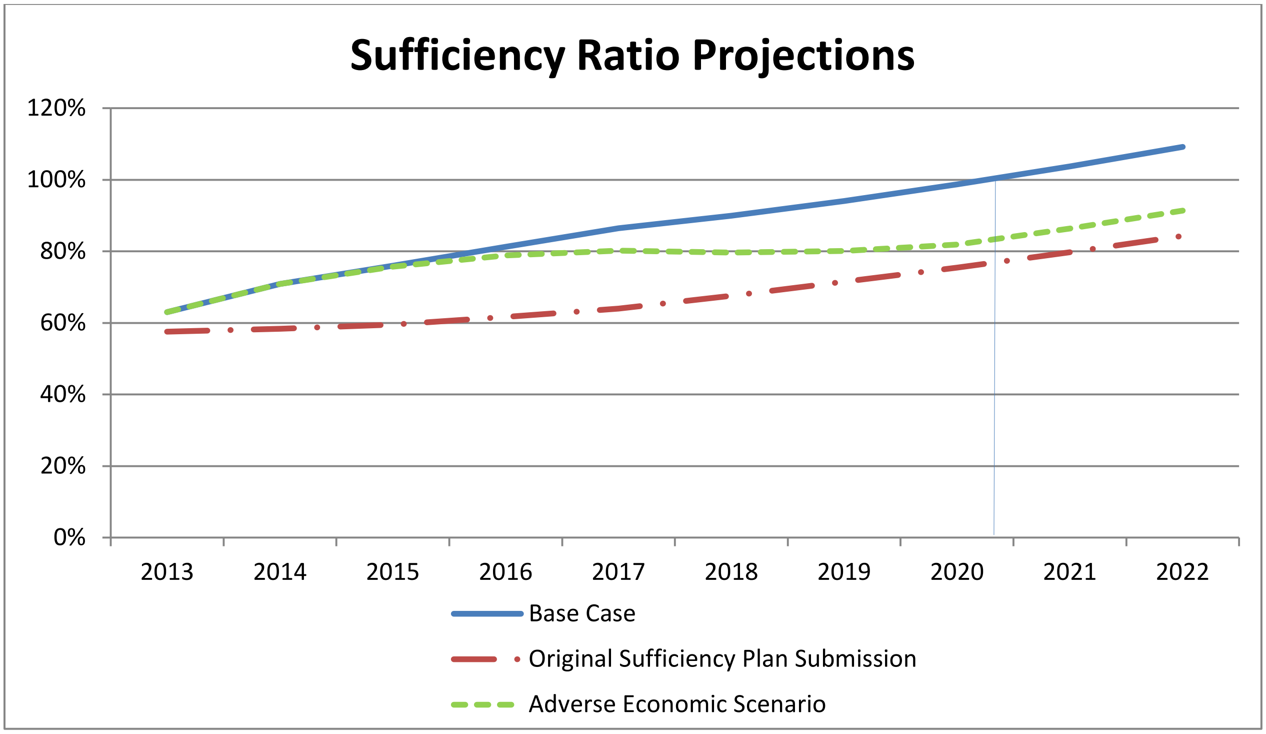
- $1.01 per $100 of insurable earnings for New Claims Costs. This is $0.09 lower than the original Sufficiency Plan due to more favourable claims experience in recent years notwithstanding an increase related to the addition of presumptive cancers for firefighters.
- No change in benefit coverage or levels, with the exception of presumptive cancers noted above.
- 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, 2014.
- No improvement in Lost Time Injury claims. No change from the original Sufficiency Plan.

3. Administration

- Administration and other expenses will remain relatively stable at $800 million until 2017 and then grow at 2% per year thereafter. No change from the original Sufficiency Plan.
- 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 2014 and projections from 2015 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 difference between our current base case (using actuals for December 31, 2013 and 2014) and 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%	63.0%*	63.0%*	5.4%	0.0%*
2014	58.4%	70.9%*	70.9%*	12.5%	0.0%*
2015	59.5%	76.0%	75.7%	16.5%	0.3%
2016	61.7%	81.3%	78.9%	19.6%	2.4%
2017	**64.0%**	**86.5%**	**80.2%**	**22.5%**	**6.3%**
2018	67.6%	90.0%	79.7%	22.4%	10.3%
2019	71.5%	94.1%	80.1%	22.6%	14.0%
2020	75.5%	98.7%	81.9%	23.2%	16.8%
2021	79.8%	103.7%	86.4%	23.9%	17.3%
2022	**84.3%**	**109.2%**	**91.4%**	**24.9%**	**17.8%**

* 2013 and 2014 Sufficiency Ratios are the actual results. Remaining Sufficiency Ratios are projections only.