

Workplace Safety and Insurance Board

2018 Annual Sufficiency Report

2018 Annual Sufficiency Report

Table of contents

President and CEO's message	3
Management's responsibility for financial reporting	4
Sufficiency discussion and analysis	
Section 1: Overview	5
Section 2: Year to date review	6
Section 3: Our funding strategy	9
Section 4: Insurance funding risk.....	10
Responsibility for reporting of Sufficiency Ratio.....	12
Independent auditor's report	13
Sufficiency Ratio statement	
Sufficiency Ratio	16
Note 1: Governing regulation and Sufficiency Ratio calculation	17
Note 2: Sufficiency Ratio assets	17
Note 3: Sufficiency Ratio liabilities	19
Note 4: Reconciliation of the Sufficiency Ratio assets and liabilities to the consolidated financial statements prepared in accordance with IFRS	21

2018 Annual Sufficiency Report

President and CEO's message

In 2018, the WSIB achieved a tremendous financial milestone with the elimination of our unfunded liability almost 10 years ahead of the legislated timeline. Now, for the first time in recorded history, we are a fully funded organization. Our 2018 results illustrate our strong financial position and our significant progress in return-to-work outcomes for people with workplace injuries and illnesses.

Some highlights from 2018 include:

- Nine out of 10 people who lost time at work due to an injury or illness returned to work within one year without any loss of income;
- More than 94 per cent of people were able to find work after completing a return-to-work plan, up from 88 per cent in 2017;
- Decision making continued to be timely, with 93 per cent of eligibility decisions being made within two weeks, higher than our target of 90 per cent;
- We saw fewer claims that were "locked-in" after 72 months. The number of lock-ins decreased by 4 per cent, to 1,108 in 2018 from 1,153 in 2017; and
- Eighty-nine per cent of appeals were resolved within six months, above our 87 per cent target.

We are proud that Ontarians can have confidence that if they are hurt on the job, or develop an illness related to their work, they will receive the services and support they are entitled to have.

With the elimination of our unfunded liability, we were able to reduce the average premium rate for Ontario businesses by 29.8 per cent for 2019. This represents the third year in a row we have reduced the average premium rate, and puts \$1.45 billion back into the economy that businesses can invest in new jobs, technology, and health and safety improvements.

As we look back on the year, we continue to deliver public value to Ontarians, and strive towards our vision of making Ontario one of the safest places to work and run a business.



Thomas Teahen

President and Chief Executive Officer

April 18, 2019

Toronto, Ontario

2018 Annual Sufficiency Report

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 consolidated financial statements and accompanying notes for the year ended December 31, 2018, and the audited Sufficiency Statement as at December 31, 2018.



Thomas Teahen
President and Chief Executive Officer
April 18, 2019
Toronto, Ontario



Pamela Steer
Chief Financial Officer

2018 Annual Sufficiency Report

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.

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

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

2018 Annual Sufficiency Report

2. Year to date review

Our performance for the year ended December 31, 2018 and the effect on our Sufficiency Ratio.

A summary of the Sufficiency Ratio as at December 31 is as follows:

(millions of Canadian dollars)	2018	2017	Change	
			\$	%
Sufficiency Ratio assets	34,523	30,930	3,593	11.6
Sufficiency Ratio liabilities	(31,973)	(32,279)	306	0.9
Net assets (unfunded liability) on a Sufficiency Ratio basis	2,550	(1,349)	3,899	
Sufficiency Ratio	108.0%	95.8%		12.2

As shown above, as at December 31, 2018, the WSIB had net assets on a Sufficiency Ratio basis of \$2,550 million. This means that the Sufficiency Ratio assets exceeded the Sufficiency Ratio liabilities and the WSIB had 108.0% of the assets required to meet its future obligations.

The increase in the Sufficiency Ratio was primarily attributable to the inclusion in employer premiums of a past claims cost component, as well as strong operating performance and a decrease in benefit liabilities due to a change in the discount rate.

The change in net assets (unfunded liability) on a Sufficiency Ratio basis is due to the following:

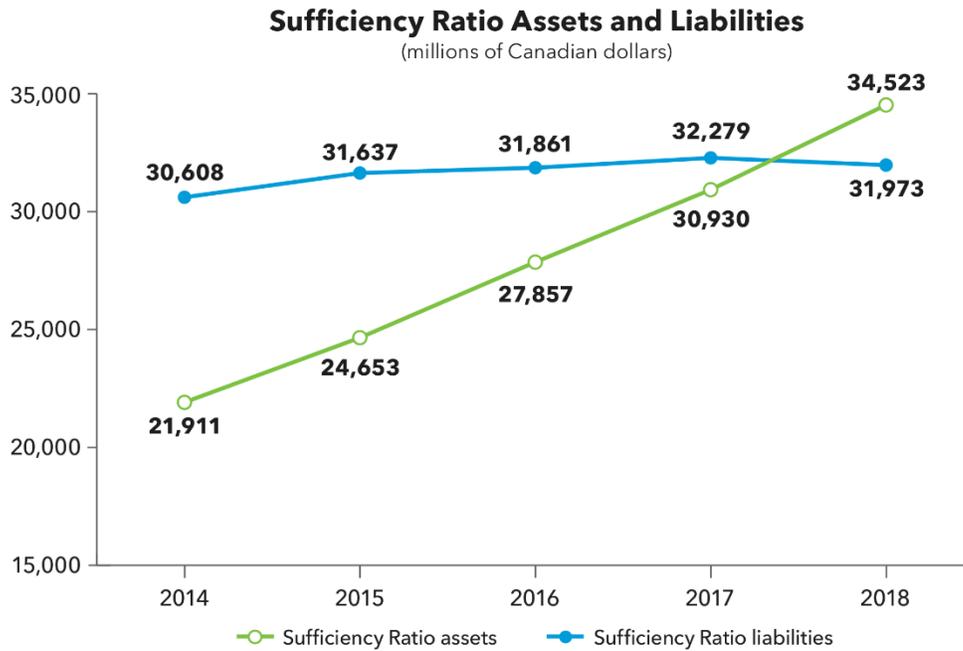
(millions of Canadian dollars)	
Unfunded liability on a Sufficiency Ratio basis as at December 31, 2017	(1,349)
Interest carrying charge on the unfunded liability on a Sufficiency Ratio basis ¹	(61)
Employer premiums used to reduce the unfunded liability on a Sufficiency Ratio basis	1,906
Investment return net adjustment ²	386
Gain from remeasurements of employee benefit plans	37
Lower claims than expected	909
Net asset increase from assumption changes ³	722
Net assets on a Sufficiency Ratio basis as at December 31, 2018	2,550
Change in the net assets (unfunded liability) on a Sufficiency Ratio basis	3,899

1. The unfunded liability on a Sufficiency Ratio basis represents the shortfall of current asset values from the discounted value of expected future payments in respect of injuries occurring in previous injury years. This shortfall represents an interest cost and must be taken into account in the reconciliation.
2. Amortization of prior year deferred investment gains of \$1,965 million partially offset by lower-than-expected returns on an International Financial Reporting Standards ("IFRS") basis of \$1,579 million.
3. A comprehensive summary of changes in actuarial assumptions and methods can be found in note 18 of the 2018 audited consolidated financial statements.

2018 Annual Sufficiency Report

Sufficiency Ratio assets and liabilities

The invested assets used in the Sufficiency Ratio calculation are adjusted to recognize a portion of the investment gains and losses that occurred over a five-year period, to reduce the volatility of the investment returns. The graph below shows the Sufficiency Ratio assets and liabilities over the last five years:

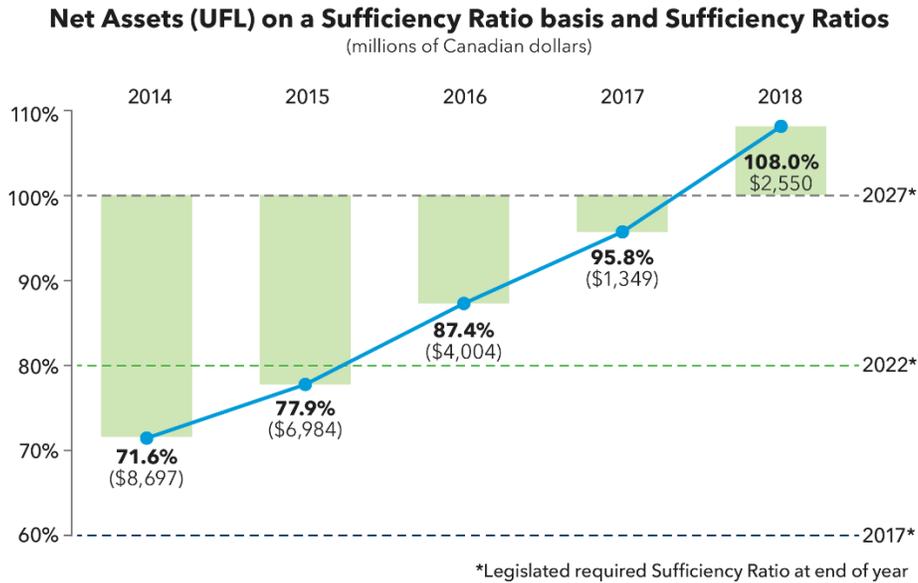


The Sufficiency Ratio liabilities remained relatively stable in comparison to the growth of the Sufficiency Ratio assets over the last five years. The increase in invested assets is due largely to transfers from operations into the investment fund, and increase in the fair valuation of invested assets, adjusted for deferred investment returns different than expected.

2018 Annual Sufficiency Report

Past Sufficiency Ratios and net assets (unfunded liabilities) on a Sufficiency Ratio basis

The following chart displays the net assets (unfunded liabilities) on a Sufficiency Ratio basis and Sufficiency Ratios for the last five consecutive years ended December 31:



As shown by the graph above, the Sufficiency Ratio has steadily improved, and the unfunded liability on a Sufficiency Ratio basis has decreased significantly over the last five years. The unfunded liability was retired in the second quarter of 2018, and the WSIB ended the 2018 year in a net assets position. The Sufficiency Ratio of 108.0% as at December 31, 2018 exceeds the legislated 100% funding level required on December 31, 2027. See Section 3 – Our funding strategy.

2018 Annual Sufficiency Report

3. Our funding strategy

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

We surpassed the prescribed Sufficiency Ratio for December 31, 2027 of 100.0%, ahead of legislated requirements. This was accomplished, in the second quarter of 2018, through the collection of employer premiums, which included a significant past claims cost component, improvements in claim durations, better-than-expected investment returns and a decrease in lost-time injuries.

In accordance with *Ontario Regulation 141/12*, and amended by the Ministry of Labour, the WSIB submitted the 2018 Economic Statement to the Minister of Labour in September 2018. The economic statement includes the sufficiency outlook, which describes the measures being taken by the WSIB to maintain the Sufficiency Ratio above 100%. Concurrent with the release of the 2018 Economic Statement, the WSIB announced a premium rate decrease for 2019 of 29.8% to the average Schedule 1 rate.

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, while we gradually eliminate the past claims cost component. 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".

2018 Annual Sufficiency Report

4. Insurance funding risk

Significant risk factors affecting our business.

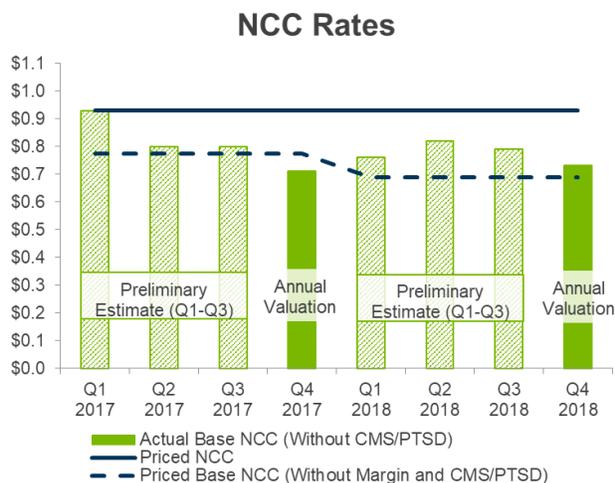
Insurance funding risk has two main elements:

- the risk that the WSIB may not be able to maintain 100% funding, which affects the sustainability of benefits for people with work-related injuries or illnesses (the underfunding risk); and
- the risk that it holds funds in excess of a sustainability reserve (the overfunding risk). There is a heightened risk of inconsistent decision-making in the absence of clarity provided by a policy position for a sufficient reserve amount while incorporating guidance for disposition of any excess funds.

The underfunding risk is low, given the current Sufficiency Ratio, in the absence of any indication that the government plans to implement any new benefits with a significant retroactive impact. The overfunding risk remains moderate, as the Sufficiency Ratio is 108.0%. 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 has allowed the WSIB to reduce the average 2019 premium rates by 29.8%, in addition to the cumulative reduction of nearly 10% experienced in the last two years.

New Claim Cost (“NCC”) Rates



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

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

*2018 quarterly NCC are estimates established for liability setting. The only precisely calculated NCC are the annual NCC calculated at Q4 of a given injury-year.

CMS: Chronic Mental Stress

PTSD: Post-traumatic stress disorder

During the first three quarters of 2018, preliminary quarterly estimates based on emerging loss of earning (LOE) and duration trends were relatively high. The negative claims trends diminished over the year, however, so that calculated 2018 NCC fell well within pricing limits, including pricing margin. The pricing margin (20%) and lower-than-planned intake of Chronic Mental Stress claims provided adequate funding protection. Planned margins in future rate setting are expected to be lower, however, making estimation precision more important. Monitoring NCC performance and sensitivity in the pricing model is essential to understand the impacts of any potential prolonged NCC trend.

2018 Annual Sufficiency Report

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 support to this work, the Investment Management Corporation of Ontario is working with the WSIB to ensure the funding policy and approach are aligned with its investment goals and returns.

While the WSIB's recent focus has been on the determination of the 2019 premium rate and the impending implementation of the new rate framework, a renewed effort to review some of the key parameters that govern funding, pricing and investment decisions within its overall funding strategy is required, in alignment with the insurance funding risk appetite statement which was approved by the Board of Directors in December 2018.

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

- Conducting regular modelling 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 the 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.

Global trade and economic tensions continue, with associated impacts on financial and business markets. Although the new US-Mexico-Canada Agreement has reduced trade policy uncertainty in North America, global trade conflict, particularly between the United States and China, continues to impact global markets. The WSIB continues to monitor economic indicators and other developments in consideration of potential long-term adverse impacts on operations, funding and investments.

While the WSIB monitors a portfolio of significant enterprise risks affecting our business, insurance funding risk is the risk from this portfolio that is of greatest importance with respect to the WSIB's Annual 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 14 of the Management's Discussion and Analysis of the WSIB's 2018 consolidated financial statements.

2018 Annual Sufficiency Report

Responsibility for reporting of Sufficiency Ratio

Role of Management

The accompanying Sufficiency Ratio and related notes are the responsibility of the management of the Workplace Safety and Insurance Board and have been prepared in accordance with the basis of accounting described in notes 2 and 3, pursuant to *Ontario Regulation 141/12* made under the *Workplace Safety and Insurance Act, 1997* (Ontario) as amended by *Ontario Regulation 338/13*, which became effective January 1, 2014. The calculation of the Sufficiency Ratio includes amounts based on management's best estimates and judgments. Management is also responsible for the preparation and presentation of additional financial information in the Sufficiency Disclosure and Analysis and ensuring its consistency with the Sufficiency Statement.

Management is responsible for the preparation and fair presentation of the Sufficiency Statement and for such internal control as management determines is necessary to enable the preparation of the Sufficiency Statement to be free from material misstatement, whether due to fraud or error. The Board of Directors has established an Audit and Finance Committee to oversee that management fulfills these responsibilities. The Audit and Finance Committee meets periodically with management, the internal auditors, and external auditors to oversee that their responsibilities are properly discharged with respect to the application of critical accounting policies, financial statement presentation, disclosures, and recommendations on internal control. 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.

Role of the External Auditors

The external auditors, Ernst & Young LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the Sufficiency Statement of the WSIB in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors make use of the work of the Chief Actuary and his report on the insurance fund liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The independent auditor's report outlines the scope of their audit and their opinion on the Sufficiency Statement of the WSIB.



Thomas Teahen
President and Chief Executive Officer
April 18, 2019
Toronto, Ontario



Pamela Steer
Chief Financial Officer

2018 Annual Sufficiency Report

Independent auditor's report

**To the Board of Directors of the Workplace Safety and Insurance Board,
The Minister of Labour and the Auditor General of Ontario**

Opinion

We have audited the accompanying Sufficiency Statement of the Workplace Safety and Insurance Board (the "WSIB"), which comprise the Sufficiency Ratio Statement as at December 31, 2018 and the notes to the Sufficiency Ratio Statement, including a summary of significant accounting policies (collectively the "Sufficiency Statement").

In our opinion, the accompanying Sufficiency Statement presents fairly, in all material respects, the Sufficiency Ratio of the WSIB as at December 31, 2018, in accordance with the basis of accounting described in Notes 2 and 3.

Basis for opinion

We conducted our audit in accordance with Canadian Auditing Standards (CASs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Sufficiency Statement section of our report. We are independent of the WSIB in accordance with the ethical requirements that are relevant to our audit of the Sufficiency Statement in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter - Basis of accounting

We draw attention to Notes 2 and 3 of the Sufficiency Statement, which describes the basis of accounting. The Sufficiency Statement is prepared to provide information regarding the Sufficiency Ratio of the WSIB. As a result, the Sufficiency Statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the Sufficiency Statement

Management is responsible for the preparation and fair presentation of this Sufficiency Statement in accordance with the basis of accounting described in Notes 2 and 3; this includes determining that the basis of accounting is an acceptable basis for the preparation of the Sufficiency Statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of a Sufficiency Statement that is free from material misstatement, whether due to fraud or error.

In preparing the Sufficiency Statement, management is responsible for assessing the WSIB's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the WSIB or to cease operations, or has no realistic alternative but to do so.

2018 Annual Sufficiency Report

Other information

Management is responsible for the other information. The other information comprises Sufficiency Discussion & Analysis.

Our opinion on the Sufficiency Statement does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Sufficiency Statement, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the Sufficiency Statement or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Sufficiency Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Auditor's responsibilities for the audit of the Sufficiency Statement

Our objectives are to obtain reasonable assurance about whether the Sufficiency Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CASs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Sufficiency Statement.

As part of an audit in accordance with CASs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Sufficiency Statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the WSIB's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Sufficiency Statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the WSIB to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Sufficiency Statement, including the disclosures, and whether the Sufficiency Statement represents the underlying transactions and events in a manner that achieves fair presentation.

2018 Annual Sufficiency Report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 18, 2019

2018 Annual Sufficiency Report**Sufficiency Ratio Statement****December 31, 2018****(millions of Canadian dollars)****Sufficiency Ratio Statement**

	Note(s)	Dec. 31 2018	Dec. 31 2017
Total assets under IFRS	2,4	37,309	35,722
<i>Add (Less):</i> Asset adjustment	2	423	(1,720)
<i>Less:</i> Sufficiency Ratio non-controlling interests	2	(3,209)	(3,072)
Sufficiency Ratio assets		34,523	30,930
Sufficiency Ratio liabilities	3	31,973	32,279
Sufficiency Ratio (assets divided by liabilities)		108.0%	95.8%

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

2018 Annual Sufficiency Report

Notes to Sufficiency Ratio Statement

December 31, 2018

(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.

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 December 31, 2018, the Sufficiency Ratio assets reflected an asset adjustment loss of \$423

(2017 – gain of \$1,720) representing the unrecognized investment returns in excess of the expected long-term annual rate of return assumption, net of investment expenses.

2018 Annual Sufficiency Report

Notes to Sufficiency Ratio Statement

December 31, 2018

(millions of Canadian dollars)

The development of the asset adjustment is detailed as follows:

	2014	2015	2016	2017	2018
Fair value of invested assets	23,739	26,301	29,366	33,996	34,872
Add (Less): Cash transfers in last month of period	(21)	11	(36)	(44)	(33)
Adjusted fair value of invested assets ¹	23,718	26,312	29,330	33,952	34,839
Less: Invested assets at expected rate of return ²	22,870	26,329	29,070	32,200	36,807
Investment returns in excess (lower than) expectations ³ , gain (loss)	848	(17)	260	1,752	(1,968)
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	(248)
Amount to be recognized from:					
2018 investment loss	-	-	-	-	(393)
2017 investment gain	-	-	-	350	351
2016 investment gain	-	-	52	52	52
2015 investment loss	-	(4)	(3)	(3)	(4)
2014 investment gain	170	170	170	169	169
2013 investment gain	242	243	243	243	-
Less: Total recognized investment returns in current year	412	409	462	811	175
Total unrecognized investment returns at end of period⁴	1,407	981	779	1,720	(423)

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:

Year earned	Investment returns to be recognized in future years:				
	Total unrecognized returns as at December 31, 2018	2019	2020	2021	2022
2018	(1,575)	394	394	393	394
2017	1,051	(351)	(350)	(350)	-
2016	104	(52)	(52)	-	-
2015	(3)	3	-	-	-
	(423)	(6)	(8)	43	394

2018 Annual Sufficiency Report

Notes to Sufficiency Ratio Statement

December 31, 2018

(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:

	Dec. 31 2018	Dec. 31 2017
Fair value of non-controlling interests	3,158	3,228
Add (Less): Asset adjustment	51	(156)
Sufficiency Ratio non-controlling interests	3,209	3,072

3. Sufficiency Ratio liabilities

Liabilities for the purposes of the Sufficiency Ratio calculation include all liabilities as shown in the audited 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 2018 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 4.75% (2017 – 4.50%) per annum, as described in note 18 of the WSIB's 2018 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% (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 consolidated financial statements. The IFRS discount rate, a weighted average of 3.95% (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 \$694 (2017 – \$925).

2018 Annual Sufficiency Report

Notes to Sufficiency Ratio Statement

December 31, 2018

(millions of Canadian dollars)

- All other liabilities were determined in accordance with IFRS.

The Sufficiency Ratio liabilities are \$31,973 (2017 – \$32,279), which includes the adjustment of \$694 (2017 – \$925). Additional details of the breakdown of the liabilities are shown in note 4.

2018 Annual Sufficiency Report

Notes to Sufficiency Ratio Statement

December 31, 2018

(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 December 31, 2018 is provided below. The consolidated statements of financial position presented on an IFRS basis are from the WSIB's consolidated financial statements. Explanatory notes follow the reconciliation below.

	Dec. 31, 2018			Dec. 31, 2017		
	IFRS Basis	Adjustments	Sufficiency Ratio Basis	IFRS Basis	Adjustments	Sufficiency Ratio Basis
Assets						
Cash and cash equivalents	2,538	-	2,538	2,586	-	2,586
Receivables and other assets	1,480	-	1,480	1,387	-	1,387
Investments	33,004	423 ¹	33,427	31,447	(1,720) ¹	29,727
Property, equipment and intangible assets	287	-	287	302	-	302
Total assets	37,309	423	37,732	35,722	(1,720)	34,002
Liabilities						
Payables and other liabilities	1,604	-	1,604	1,185	-	1,185
Derivative liabilities	448	-	448	88	-	88
Long-term debt	114	-	114	115	-	115
Loss of Retirement Income Fund liability	1,867	-	1,867	1,915	-	1,915
Employee benefit plans liability	1,424	(694) ²	730	1,611	(925) ²	686
Benefit liabilities	27,210	-	27,210	28,290	-	28,290
Total liabilities	32,667	(694)	31,973	33,204	(925)	32,279
Net assets (unfunded liability)						
Reserves (deficit)	1,056	1,066	2,122	(792)	(639)	(1,431)
Accumulated other comprehensive income	428	-	428	82	-	82
Net assets (unfunded liability) attributable to WSIB stakeholders	1,484	1,066	2,550	(710)	(639)	(1,349)
Non-controlling interests	3,158	51 ¹	3,209	3,228	(156) ¹	3,072
Total net assets	4,642	1,117	5,759	2,518	(795)	1,723
Total liabilities and net assets	37,309	423	37,732	35,722	(1,720)	34,002
Sufficiency Ratio			108.0%			95.8%

- Reflects the asset adjustment of our total assets shown on our consolidated statements of financial position at the expected long-term annual rate of return of 4.75% (2017 – 4.75%), resulting in an increase of \$423 (2017 – decrease of \$1,720), which includes the interests in those assets held by third parties (non-controlling interests) of \$51 (2017 – (\$156)).
- Reflects the use of a going concern discount rate of 5.20% (2017 – 5.20%). For the purposes of the consolidated financial statements, an accounting weighted average discount rate of 3.95% was used as at December 31, 2018 (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.