Workplace Safety and Insurance Board

Third Quarter **2019** Sufficiency Report

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President and CEO's message

In September, we shared 2020 premium rates with businesses across Ontario using our new premium rate-setting model. We also announced a 17% reduction to the average premium rate for 2020. This is the fourth year in a row that the average premium rate has decreased, resulting in a total reduction of $1.22 (47%) from $2.59 in 2016.

Some other highlights from Q3 2019 include:

- For the first time in almost three years, there was a decrease in lost-time injury rate year-over-year, going down from 0.97 in Q3 2018 to 0.94 in Q3 2019.
- Year to date, we have received 3% fewer appeals than in 2018 and appeal decisions continued to be timely, with 91% of appeals decided within six months.
- Our investment returns increased this quarter with our investment portfolio showing a 1.4% return during the quarter, compared to 0.9% in the same quarter last year.

This quarter we also made enhancements to our online services. As of September, businesses can now view exclusive information regarding their premium rates, detailed claims costs, and key health and safety statistics by logging in to our online services.

We also have more health and safety data available on our website. This open data allows people to compare the health and safety statistics of every Ontario business, giving everyone the opportunity to assess the safety of their existing or potential new workplace, service provider or supplier.

All of these important initiatives are helping make Ontario safer, and bring us one-step closer in achieving our vision of making Ontario the safest province to work or run a business.

Thomas Teahen
President and Chief Executive Officer
December 12, 2019
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 nine months ended September 30, 2019 (the "unaudited interim consolidated financial statements").

Thomas Teahen
President and Chief Executive Officer
December 12, 2019
Toronto, Ontario

Ernest Chui
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.

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 nine months ended September 30, 2019 and the effect on our Sufficiency Ratio.

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

(millions of Canadian dollars)	Sep. 30 2019	Dec. 31 2018	Change $	Change %
Sufficiency Ratio assets	35,170	34,523	647	1.9
Sufficiency Ratio liabilities	(31,509)	(31,973)	(464)	(1.5)
Net assets on a Sufficiency Ratio basis	3,661	2,550	1,111	
Sufficiency Ratio	**111.6%**	**108.0%**		**3.6**

As shown above, as at September 30, 2019, the WSIB had net assets on a Sufficiency Ratio basis of $3,661 million. This means that the Sufficiency Ratio assets exceeded the Sufficiency Ratio liabilities and the WSIB had 111.6% of the assets required to meet its future obligations.

The increase in the Sufficiency Ratio was primarily attributable to better than expected investment returns on Sufficiency Ratio assets. While significantly reduced from 2018 levels, the inclusion in employer premiums of a past claims cost component also contributed to this increase.

The Sufficiency Ratio of 111.6% as at September 30, 2019 exceeds the legislated 100% funding level required on December 31, 2027. See Section 3 – Our funding strategy.

3. Our funding strategy

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

In accordance with *Ontario Regulation 141/12*, and amended by the Ministry of Labour, the WSIB submitted the 2019 Economic Statement to the Minister of Labour in September 2019. The economic statement includes the sufficiency outlook, which describes the measures being taken by the WSIB to ensure with enhanced assurance[1] that our insurance fund will not fall below 100% funding. Concurrent with the release of the 2019 Economic Statement, the WSIB announced a premium rate decrease for 2020 of 17.0% 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 combined with a prudent expected investment return will cover claim costs, administration and other expenses.

We continually refine our strategy to ensure that the insurance fund can withstand future economic conditions, 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 ensure with enhanced assurance that our insurance fund will not fall below 100% funding.

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 a high probability that the Sufficiency Ratio will not fall below 100%.

4. Insurance funding risk

Significant risk factors affecting our business.

Insurance funding risk has two main elements:

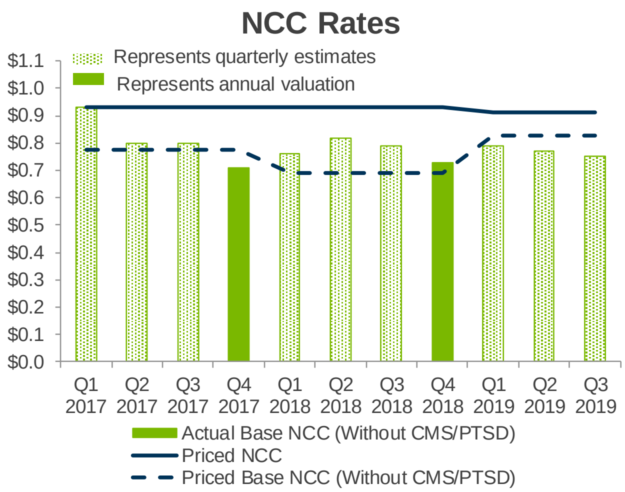
- Underfunding risk – which could materialize as a result of the WSIB not being able to maintain 100% funding, which affects the sustainability of benefits for people with work-related injuries or illnesses; and
- Overfunding risk – that could arise as a result of the WSIB maintaining funds in excess of a sustainability reserve which in turn leads to a heightened risk of inconsistent decision-making on the treatment of surplus funds.

As of Q3 2019, our Sufficiency Ratio is at 111.6%. The risk of underfunding remains low assuming that the benefits we provide remain unchanged and New Claim Costs continue to decline. Management remains attentive to the implications of overfunding risk which could result in a surplus of funds above an appropriate level of sustainability reserve. The WSIB continues to operate without a defined policy position that establishes appropriate minimum and maximum levels of a sustainability reserve while continuing to evaluate mechanisms to address the management of surplus funding.

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 continues to consult with government reviewers to establish a responsible reserve threshold, above the 100% funding requirement, within its funding policy 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.

The following graph displays the adequacy of NCC pricing, by comparing the NCC built into premium rates with that actually experienced. Note that the actual NCC calculated for Q4 is an exact calculation, while that calculated for interim quarters is an estimate.

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.

Priced NCC: the NCC component of premium rates for the year, including any prudency margins built into the NCC.

*Q1 to Q3 quarterly NCC rates are best estimates established for liability setting. Q4 NCC rates are the annual valuation of the NCC rate calculated for a given injury-year.

CMS: Chronic Mental Stress
PTSD: Post-traumatic stress disorder

The WSIB continues its work to update its Strategic Investment Plan to provide further enhancements to the current investment strategy to ensure it aligns with, and enables, the achievement of the WSIB's future strategic priorities. Furthermore, WSIB continues to work towards consistency and alignment of investment strategy with the funding policy and premium rate approach. While the WSIB's recent focus has been on the determination of the 2020 premium rate and 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 policy 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.

Despite the escalation of geopolitical uncertainty in the third quarter of 2019, Canada's pace of growth will remain slow for the remainer of the year with a modest increase in 2020. As Canada's economy continues to gradually grow, the greatest downside risks to economic growth and stability remains the U.S.-China trade war, volatile commodity prices and elevated household debt. The WSIB continues to monitor emerging economic risk 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, the insurance funding risk is the risk from this portfolio that is of greatest importance with respect to the WSIB's Third Quarter 2019 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 Annual Report. No additional risk factors or changes to mitigation approaches have been noted as at September 30, 2019.

Sufficiency Ratio Statement
September 30, 2019
Unaudited (millions of Canadian dollars)

Sufficiency Ratio Statement

	Note(s)	**Sep. 30 2019**	**Dec. 31 2018**
Total assets under IFRS	2,4	39,678	37,309
Add (Less): Asset adjustment	2	(1,190)	423
Less: Sufficiency Ratio non-controlling interests	2	(3,318)	(3,209)
Sufficiency Ratio assets		35,170	34,523
Sufficiency Ratio liabilities	3	31,509	31,973
Sufficiency Ratio (assets divided by liabilities)		**111.6%**	**108.0%**

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

Notes to Sufficiency Ratio Statement
September 30, 2019
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.

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

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September 30, 2019
Unaudited (millions of Canadian dollars)

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 September 30, 2019, the Sufficiency Ratio assets reflected an asset adjustment gain of $1,190 (December 31, 2018 – loss of $423) representing the unrecognized investment returns in excess of the expected long-term annual rate of return assumption, net of investment expenses.

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The development of the asset adjustment is detailed as follows:

	Dec. 31 2015	**Dec. 31 2016**	**Dec. 31 2017**	**Dec. 31 2018**	**Sep. 30 2019**
Fair value of invested assets	26,301	29,366	33,996	34,872	37,907
Add (Less): Cash transfers in last month of period	11	(36)	(44)	(33)	(31)
Adjusted fair value of invested assets[1]	26,312	29,330	33,952	34,839	37,876
Less: Invested assets at expected rate of return[2]	26,329	29,070	32,200	36,807	35,973
Investment returns in excess of (lower than) expectations[3], gain/(loss)	(17)	260	1,752	(1,968)	1,903
Add (Less): Unrecognized investment returns at prior period end	1,407	981	779	1,720	(423)
Total unrecognized investment returns	**1,390**	**1,241**	**2,531**	**(248)**	**1,480**
Amount to be recognized from:					
2019 investment gain	-	-	-	-	285
2018 investment loss	-	-	-	(393)	(295)
2017 investment gain	-	-	350	351	263
2016 investment gain	-	52	52	52	39
2015 investment loss	(4)	(3)	(3)	(4)	(2)
2014 investment gain	170	170	169	169	-
2013 investment gain	243	243	243	-	-
***Less*: Total recognized investment returns in current year**	**409**	**462**	**811**	**175**	**290**
Total unrecognized investment returns at end of period[4]	**981**	**779**	**1,720**	**(423)**	**1,190**

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:

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Year	2015	2016	2017	2018	2019
Expected long-term annual rate of return	6.00%	5.25%	4.75%	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 September 30, 2019**	**Remainder of 2019**	**2020**	**2021**	**2022**	**2023**
2019	1,618	(96)	(380)	(381)	(380)	(381)
2018	(1,280)	99	394	393	394	-
2017	788	(88)	(350)	(350)	-	-
2016	65	(13)	(52)	-	-	-
2015	(1)	1	-	-	-	-
	1,190	**(97)**	**(388)**	**(338)**	**14**	**(381)**

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

	Sep. 30 2019	**Dec. 31 2018**
Fair value of non-controlling interests	3,376	3,158
Add (Less): Asset adjustment	(58)	51
Sufficiency Ratio non-controlling interests	**3,318**	**3,209**

Notes to Sufficiency Ratio Statement
September 30, 2019
Unaudited (millions of Canadian dollars)

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 and lease liabilities.

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% (December 31, 2018 – 4.75%) 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 5.1%

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(December 31, 2018 – 5.1%) 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 3.0% (December 31, 2018 – 3.95%) 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 $1,428 (December 31, 2018 – $694).

- All other liabilities were determined in accordance with IFRS.

The Sufficiency Ratio liabilities are $31,509 (December 31, 2018 – $31,973), which includes the adjustment of $1,428 (December 31, 2018 – $694). Additional details of the breakdown of the liabilities are shown in note 4.

Notes to Sufficiency Ratio Statement
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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 September 30, 2019 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.

	September 30, 2019			December 31, 2018		
	IFRS basis	Adjust-ments	Suffi-ciency Ratio basis	IFRS basis	Adjust ments	Suffi-ciency Ratio basis
Assets						
Cash and cash equivalents	3,185	-	3,185	2,538	-	2,538
Receivables and other assets	1,474	-	1,474	1,480	-	1,480
Investments	34,671	(1,190)[1]	33,481	33,004	423[1]	33,427
Property, equipment and intangible assets	348	-	348	287	-	287
Total assets	**39,678**	**(1,190)**	**38,488**	**37,309**	**423**	**37,732**
Liabilities						
Payables and other liabilities	1,287	-	1,287	1,604	-	1,604
Derivative liabilities	76	-	76	448	-	448
Long-term debt and lease liabilities	202	-	202	114	-	114
Loss of Retirement Income Fund liability	1,964	-	1,964	1,867	-	1,867
Employee benefit plans liability	2,107	(1,428)[2]	679	1,424	(694)[2]	730
Benefit liabilities	27,301	-	27,301	27,210	-	27,210
Total liabilities	**32,937**	**(1,428)**	**31,509**	**32,667**	**(694)**	**31,973**
Net assets						
Reserves	3,630	296	3,926	1,056	1,066	2,122
Accumulated other comprehensive income	(265)	-	(265)	428	-	428

Notes to Sufficiency Ratio Statement
September 30, 2019
Unaudited (millions of Canadian dollars)

	September 30, 2019			December 31, 2018		
	IFRS basis	Adjust-ments	Suffi-ciency Ratio basis	IFRS basis	Adjust ments	Suffi-ciency Ratio basis
Net assets attributable to WSIB stakeholders	**3,365**	**296**	**3,661**	**1,484**	**1,066**	**2,550**
Non-controlling interests	3,376	(58)[1]	3,318	3,158	51[1]	3,209
Total net assets	**6,741**	**238**	**6,979**	**4,642**	**1,117**	**5,759**
Total liabilities and net assets	**39,678**	**(1 ,190)**	**38,488**	**37,309**	**423**	**37,732**
Sufficiency Ratio			**111.6%**			**108.0%**

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, 2018 – 4.75%) resulting in a decrease of $1,190 (December 31, 2018 – increase of $423), which includes the interests in those assets held by third parties (non-controlling interests) of $58 (December 31, 2018 – increase of $51).
2. Reflects the use of a going concern discount rate of 5.1% (December 31, 2018 – 5.1%). For the purposes of the unaudited interim consolidated financial statements, an accounting weighted average discount rate of 3.0% was used as at September 30, 2019 (December 31, 2018 – 3.95%). 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.