# Workplace Safety and Insurance Board

First Quarter 2020 Results

## Message from the Chair and President and CEO

The world looks quite different from this time last year. Early 2020 saw the beginning of the spread of COVID-19, an ongoing pandemic that has dramatically changed how we and others do business. The province and country are currently responding to the pandemic with restrictions in place to help keep us all safe. As we emerge from lockdown and businesses begin to open once again, health and safety is and will be even more top-of-mind for all Ontarians.

We have taken measures to ensure people who are entitled to services and benefits due to work-related injury or illness can get them, and that we can support Ontario businesses through this challenging time.

Those measures include:

- Swiftly implementing our business continuity plan to make sure there were no service disruptions for anyone who needed to reach us or required services or benefits from us
- Transitioning our staff to work from home to keep them safe and help stop the spread of COVID-19
- Ensuring no disruptions to benefits or benefit payments for people who rely on us
- Keeping people informed through our website with critical updates and frequently asked questions related to COVID-19 claims, to help Ontarians navigate working during a pandemic

Importantly, we also worked with the Government of Ontario to offer a $1.9 billion financial relief package to help Ontario businesses through this pandemic as they grapple with unprecedented work restrictions and temporary shutdowns. This package includes the opportunity for any employer to defer premium reporting and payments until August 31, 2020.

We are able to offer this relief because of our strong financial position. Instead of having a $14 billion unfunded liability, as we did less than ten years ago, we closed out 2019 with a funding level of about 114%. This strong financial management has secured our ability to both continue services and benefits for people who need us and offer financial relief to Ontario employers.

At the beginning stage of the pandemic, we have seen some impact in our quarterly results with slightly increasing durations and claim volume down 12% in Q1 with the most significant decrease in March.

Together, our results this quarter and actions to respond to the COVID-19 pandemic demonstrate our commitment to making Ontario the safest place to work, and also to our values of being compassionate, working with integrity, earning people's trust, and always being helpful.

**Elizabeth Witmer**
Chair, WSIB

**Thomas Teahen**
President and CEO, WSIB

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## Highlights this quarter

### Impact of COVID-19

The final weeks of Q1 marked a significant social and economic shift for the province and the rest of the world. On March 11, the World Health Organization declared COVID-19 a global pandemic, and on March 17 the Province officially declared a state of emergency in Ontario.

**Impacts to operations |** As a result, we moved to a work from home model for our entire organization, beginning the week of March 16, and closed our offices to the public at the same time. Both actions contributed to efforts to help stop the spread of COVID-19.

We immediately enacted a business continuity plan, to maintain service levels and help Ontarians as the situation evolved. We ensured there were no interruptions to benefit payments to injured or ill people. We also updated our website with information about accessing our online services, and provided detailed information on COVID-19 related claims. Our service levels (time to answer, first call resolution) during this time showed that we were here to help the people who needed it.

We began to see impacts to our business starting in mid-March as a result of the restrictions on economic activity. For example, our incoming claims volume decreased, while the number of registered COVID-19 claims began to increase.

**Financial impacts |** Since Schedule 1 businesses pay premiums based on the number of hours worked at their organization, shutdowns will mean a reduction in premium revenue. Our investment portfolio has also been affected by below target short-term returns.

**WSIB financial relief package for businesses |** In order to support businesses during this unprecedented time, we announced financial relief measures that allow businesses to defer premium reporting and payments until August 31, 2020. All Schedule 1 businesses are eligible for the deferral to report and pay monthly, quarterly or annually based on their insurable earnings. All payment obligations (weekly and monthly) for Schedule 2 businesses have also been deferred until August 31, 2020.

In an effort to further support Ontario businesses during this time, we have determined that costs associated with COVID-19 related claims will not be allocated at an employer or class level. Instead, they will be allocated on a Schedule-wide basis and there will be no change in premium rates for 2020.

### Operational highlights

**Decrease in registered claim volume |** In Q1 2020, 47,038 Schedule 1 claims were registered, which was 12% fewer than the 53,755 that were registered in Q1 2019. While registered claim volume was below 2019 levels in each month of Q1, the decrease compared to last year was the most significant in March, where we saw a 20% decline in registered claim volume. The decline in March coincided with economic restrictions because of the COVID-19 pandemic.

Among Schedule 2 businesses, registered claim volume was also lower than last year, by 14%.

**Longer claim durations |** In Q1, we saw an increase in Schedule 1 claim durations, which is the amount of time that claims continue to require benefits on average. Compared to the end of 2019, durations at most time intervals increased during Q1. Only 12- and 72-month durations were unchanged.

Once they reach 72-month duration, claims may be locked in for benefits, which occurred for 293 claims in Q1 of this year. This is higher than the 257 lock-ins we had in Q1 2019, but remains below our target of 326 locked-in claims.

**Customer satisfaction stable |** 70% of people with workplace injuries or illnesses and 74% of businesses were satisfied with their overall experience of working with us in Q1. While these results are a modest improvement from last quarter's results, where we saw customer satisfaction levels of 69% for people with injuries and 73% for businesses, they are slightly lower than our Q1 2019 results, where we saw customer satisfaction levels of 73% and 78% respectively.

## Financial highlights

**Funded position |** As at March 31, 2020, our net assets on a Sufficiency Ratio basis were $4.5 billion, an increase of $0.2 billion from $4.3 billion as at December 31, 2019. This corresponds to a Sufficiency Ratio of 114.3%, compared to 113.7% at year-end 2019. The increase mainly reflects the deferral of current period investment losses and recognition of investment income, partially offset by the going concern adjustments of the employee benefit plan liability.

**Premium rate reduction |** Net premiums decreased $149 million, or 17.0%, compared to Q1 2019, primarily reflecting a 20% reduction in Schedule 1 employer premiums driven mainly by the 17% reduction to the published 2020 premium rates. On March 25, the WSIB announced that it will be offering financial relief to businesses by allowing them to defer reporting and payment of their WSIB premiums until August 31, 2020. In lieu of employer reporting, we have utilized economic reports for Ontario to estimate the impact of COVID-19 on premiums by including an 11.8% reduction in employment for Q1.

**Investment returns |** Our investment portfolio incurred a 9.2% gross loss during the quarter, compared to a 5.8% gross return in the same quarter last year primarily as a result of the impact of the COVID-19 pandemic. Portfolio losses in Q1 were driven by negative returns in public equities (-17.5%), diversified markets (-14.9%), public market alternatives (-8.7%) and infrastructure (-5.1%). This was partially offset by positive returns in fixed income (+2.9%) and real estate (+0.4%). Long-term investment returns (10-year (+6.7%) and 15-year (+5.8%)) remain within, or above, the long-term target of 3.9% to 6.6%.

**Liquidity and capital resources |** As at March 31, 2020, we held $3,313 million of cash and cash equivalents, of which $3,113 million was held for investing purposes and $200 million was held for operating purposes.

# Financial results and outlook

## Results of operations

The Workplace Safety and Insurance Board (the "WSIB") reported total comprehensive loss of $3,565 million for the three months ended March 31, 2020, compared to total comprehensive income of $1,359 million for the same period last year mainly due to the followings:

- A decrease in net premiums of $149 million mainly due to lower gross Schedule 1 premiums attributable to the 17.0% reduction in the published 2020 premium rates, partially offset by higher net surcharges for mandatory employer incentive programs.
- A decrease in net investment income of $5,362 million mainly attributable to market turmoil due to the COVID-19 outbreak. The first quarter of 2020 was an extremely weak period for particular asset classes such as public equities, diversified markets and public market alternatives as COVID-19 spread globally, which resulted in the overall portfolio loss of 9.2%.
- An increase in claim payments of $22 million mainly due to higher loss of earnings and health care expense.
- As expected, there was an increase in total administration and other expenses, before allocation to claim cost, of $17 million reflecting $8 million of higher employee benefit plans expenses, $6 million of higher other expenses and $3 million of higher salaries and short-term benefits.

## Outlook

### Premiums

Premium revenues are expected to decrease in 2020. This expectation reflects the 17.0% reduction to the published average premium rate determined under the new premium rate-setting model and the expected adverse implications of COVID-19 on insurable earnings growth and premiums paid by employers on every $100 of insurable payroll.

### Net investment income

While our long-term investment return objective is planned within an expected range of 3.9% to 6.6%, we expect near-term volatility of investment returns in 2020 due to market and economic conditions as a result of COVID-19. We will continue to implement our Strategic Investment Plan ("SIP") in a way that permits us to take advantage of investment opportunities without exposing us to a higher level of expected volatility and corresponding investment risk over the long term.

### Claim payments

Claim payments are anticipated to be higher than the level of claim payments in 2019 driven mainly by higher durations of prior year claims. While slowdown in economic activity may reduce claim payments related to new injuries, it may also push durations higher for existing claims thereby offsetting the effect of lower new claim volume. For certain categories such as health care, diminished activity has the effect of deferring costs rather than eliminating them. Consideration of these factors, together with high uncertainty in the economic outlook, leads to expectations of claim payments approximating budget.

### Administration and other expenses

While administration and other expenses are anticipated to increase in 2020 compared to our 2019 actuals (reflecting increases to information technology costs, salaries and short-term benefits and employee benefit plan expenses), the WSIB is exploring both expense savings and expenditure deferral opportunities to prudently manage our cash flows.

### Legislated obligations and funding commitments

Legislated obligations and funding commitments are anticipated to increase, reflecting higher costs for Ministry of Labour, Training and Skills Development's new voluntary Supporting Ontario's Safe Employers program and higher costs for WSIB's new Health and Safety Excellence program.

### Net assets

The COVID-19 outbreak is expected to result in volatility of both employer contributions and investment assets and a potential decrease in our net asset position.

### Liquidity

The expected adverse impacts of the COVID-19 outbreak on premiums, net investment income, and net assets are expected to adversely impact our net cash flows and liquidity requirements. We have expanded the range and severity of stress tests used in our liquidity assessments and will continue to mitigate liquidity risk to ensure funds are available as required. We do not anticipate encountering difficulty in meeting payment obligations when due.

## Reconciliation of the net assets on a Sufficiency Ratio basis

As at March 31, 2020, the Sufficiency Ratio, as defined in the *Ontario Regulation 141/12* and amended by *Ontario Regulation 338/13* (collectively, the "Ontario Regulations"), was 114.3% (December 31, 2019 – 113.7%). Set forth below is the reconciliation of the net assets between the IFRS basis and Sufficiency Ratio basis:

| (millions of Canadian dollars) | March 31 2020 | December 31 2019 |
|---|---|---|
| Net assets attributable to WSIB stakeholders on an IFRS basis | 1,349 | 4,588 |
| *Add (Less):* Adjustments per Ontario Regulations: | | |
| Change in valuation of invested assets | 2,313 | (1,686) |
| Change in valuation of employee benefit plans liability | 1,106 | 1,283 |
| Change in valuation of invested assets attributable to non-controlling interests | (278) | 84 |
| **Net assets attributable to WSIB stakeholders on a Sufficiency Ratio basis** | **4,490** | **4,269** |
| **Sufficiency Ratio** | **114.3%** | **113.7%** |

## Internal control over financial reporting

Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality. The WSIB's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Management is also responsible for the preparation and presentation of additional financial information included in the Annual Report and ensuring its consistency with the consolidated financial statements.

**Condensed Interim Consolidated Statements of Financial Position**
**Unaudited (millions of Canadian dollars)**

| | Note | March 31 2020 | December 31 2019 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 3,313 | 3,408 |
| Receivables and other assets | 4 | 1,362 | 1,297 |
| Public equity securities | 6 | 12,179 | 14,915 |
| Fixed income securities | 6 | 6,597 | 7,728 |
| Derivative assets | 6 | 401 | 223 |
| Investment properties | 6 | 1,214 | 1,368 |
| Investments in associates and joint ventures | | 2,538 | 2,458 |
| Other invested assets | 6 | 8,926 | 8,783 |
| Property, equipment and intangible assets | | 355 | 356 |
| **Total assets** | | **36,885** | **40,536** |
| **Liabilities** | | | |
| Payables and other liabilities | | 1,008 | 1,163 |
| Derivative liabilities | 6 | 462 | 72 |
| Long-term debt and lease liabilities | | 180 | 201 |
| Loss of Retirement Income Fund liability | | 1,835 | 2,000 |
| Employee benefit plans liability | 7 | 1,799 | 1,971 |
| Benefit liabilities | 9 | 27,158 | 27,110 |
| **Total liabilities** | | **32,442** | **32,517** |
| **Net assets** | | | |
| Reserves | | 1,224 | 4,676 |
| Accumulated other comprehensive income (loss) | | 125 | (88) |
| **Net assets attributable to WSIB stakeholders** | | **1,349** | **4,588** |
| Non-controlling interests | | 3,094 | 3,431 |
| **Total net assets** | | **4,443** | **8,019** |
| **Total liabilities and net assets** | | **36,885** | **40,536** |

Approved by the Board of Directors

**Elizabeth Witmer**

Chair
June 24, 2020

**Leslie Lewis**

Audit and Finance Committee (Chair)
June 24, 2020

The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.

**Condensed Interim Consolidated Statements of Comprehensive Income (loss)**
**Unaudited (millions of Canadian dollars)**

| | | Three months ended March 31 | |
|---|---|---|---|
| | **Note** | **2020** | **2019** |
| **Revenues** | | | |
| Premiums | 8 | 724 | 900 |
| Net mandatory employer incentive programs | 8 | 3 | (24) |
| **Net premiums** | | **727** | **876** |
| Investment income (loss) | 5 | (3,389) | 1,945 |
| Investment expenses | 5 | (92) | (64) |
| **Net investment income (loss)** | | **(3,481)** | **1,881** |
| **Total revenues** | | **(2,754)** | **2,757** |
| **Expenses** | | | |
| Claim payments | 10 | 651 | 629 |
| Claim administration costs | 10 | 117 | 111 |
| Change in actuarial valuation of benefit liabilities | 10 | 48 | 82 |
| **Total claim costs** | | **816** | **822** |
| Loss of Retirement Income Fund contributions | | 14 | 14 |
| Administration and other expenses | 11 | 126 | 115 |
| Legislated obligations and funding commitments | | 70 | 63 |
| **Total expenses** | | **1,026** | **1,014** |
| **Excess (deficiency) of revenues over expenses** | | **(3,780)** | **1,743** |
| **Other comprehensive income (loss)** | | | |
| Item that will not be reclassified subsequently to income | | | |
| Remeasurements of employee benefit plans | 7 | 193 | (352) |
| Item that will be reclassified subsequently to income | | | |
| Translation gains (losses) from net foreign investments | | 22 | (32) |
| **Total other comprehensive income (loss)** | | **215** | **(384)** |
| **Total comprehensive income (loss)** | | **(3,565)** | **1,359** |

| | Three months ended March 31 | |
|---|---|---|
| | **2020** | **2019** |
| **Excess (deficiency) of revenues over expenses attributable to:** | | |
| WSIB stakeholders | (3,452) | 1,560 |
| Non-controlling interests | (328) | 183 |
| | **(3,780)** | **1,743** |
| **Total comprehensive income (loss) attributable to:** | | |
| WSIB stakeholders | (3,239) | 1,179 |
| Non-controlling interests | (326) | 180 |
| | **(3,565)** | **1,359** |

The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.

**Condensed Interim Consolidated Statements of Changes in Net Assets**
**Unaudited (millions of Canadian dollars)**

| | | Three months ended March 31 | |
|---|---|---|---|
| | **Note** | **2020** | **2019[1]** |
| **Reserves** | | | |
| Balance at beginning of period | | 4,676 | 1,056 |
| Effect of initial application of IFRS 16 | | - | (25) |
| Adjusted balance at beginning of period | | 4,676 | 1,031 |
| Excess (deficiency) of revenues over expenses | | (3,452) | 1,560 |
| **Balance at end of period** | | **1,224** | **2,591** |
| **Accumulated other comprehensive income (loss)** | | | |
| Balance at beginning of period | | (88) | 428 |
| Remeasurements of employee benefit plans | 7 | 193 | (352) |
| Translation gains (losses) from net foreign investments | | 20 | (29) |
| **Balance at end of period** | | **125** | **47** |
| **Net assets attributable to WSIB stakeholders** | | **1,349** | **2,638** |
| **Non-controlling interests** | | | |
| Balance at beginning of period | | 3,431 | 3,158 |
| Excess (deficiency) of revenues over expenses | | (328) | 183 |
| Translation gains (losses) from net foreign investments | | 2 | (3) |
| Change in ownership share in investments | | (11) | (60) |
| **Balance at end of period** | | **3,094** | **3,278** |
| **Total net assets** | | **4,443** | **5,916** |

1. Certain comparative amounts have been reclassified to be consistent with the current period's presentation.

The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.

**Condensed Interim Consolidated Statements of Cash Flows**
**Unaudited (millions of Canadian dollars)**

| | | Three months ended March 31 | |
|---|---|---|---|
| | **Note** | **2020** | **2019** |
| **Operating activities:** | | | |
| Total comprehensive income (loss) | | (3,565) | 1,359 |
| Adjustments: | | | |
| Amortization of net discount on investments | | (8) | (8) |
| Depreciation and amortization of property, equipment and intangible assets | | 14 | 13 |
| Changes in fair value of investments | | 3,724 | (1,794) |
| Changes in fair value of investment properties | | 14 | (5) |
| Translation losses (gains) from net foreign investments | | (22) | 32 |
| Dividend income from public equity securities | | (110) | (151) |
| Income from investments in associates and joint ventures | | (21) | (18) |
| Interest income | | (49) | (46) |
| Interest expense | | 3 | 2 |
| Total comprehensive loss after adjustments | | **(20)** | **(616)** |
| Changes in non-cash balances related to operations: | | | |
| Receivables and other assets, excluding those related to investing activities | | 189 | 64 |
| Payables and other liabilities, excluding those related to investing and financing activities | | (240) | (221) |
| Loss of Retirement Income Fund liability | | (165) | 72 |
| Employee benefit plans liability | 7 | (172) | 358 |
| Benefit liabilities | 9 | 48 | 82 |
| Total changes in non-cash balances related to operations | | (340) | 355 |
| **Net cash required by operating activities** | | **(360)** | **(261)** |
| **Investing activities:** | | | |
| Dividends received from public equity securities, associates and joint ventures | | 119 | 152 |
| Interest received | | 43 | 23 |
| Purchases of property, equipment and intangible assets | | (11) | (6) |
| Purchases of investments | | (7,565) | (3,815) |
| Proceeds on sales and maturities of investments | | 7,621 | 4,216 |
| Net dispositions (additions) to investment properties | | 142 | (10) |
| Net dispositions (additions) to investments in associates and joint ventures | | (46) | 8 |
| **Net cash provided by investing activities** | | **303** | **568** |
| **Financing activities:** | | | |
| Net contributions (redemptions) related to non-controlling interests | | 2 | (33) |
| Distributions paid by subsidiaries to non-controlling interests | | (13) | (27) |
| Repayment of debt and lease liabilities | | (24) | (1) |
| Interest paid on debt and lease liabilities | | (3) | (2) |
| **Net cash required by financing activities** | | **(38)** | **(63)** |
| **Net increase (decrease) in cash and cash equivalents** | | **(95)** | **244** |
| Cash and cash equivalents, beginning of period | | 3,408 | 2,538 |
| **Cash and cash equivalents, end of period** | | **3,313** | **2,782** |

The accompanying notes form an integral part of these unaudited condensed interim consolidated financial statements.

**Notes to Condensed Interim Consolidated Financial Statements**
**March 31, 2020**
**Unaudited (millions of Canadian dollars)**

## 1. Nature of operations

The Workplace Safety and Insurance Board (the "WSIB") is a statutory corporation created by an Act of the Ontario Legislature in 1914 and domiciled in the Province of Ontario (the "Province"), Canada. As a board-governed trust agency, in accordance with the Agencies and Appointments Directive, the WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), which establishes a no-fault insurance scheme that provides benefits to people who experience workplace injuries or illnesses.

The WSIB promotes workplace health and safety in the Province and provides a workplace compensation system for Ontario based employers and people with work-related injuries or illnesses. The WSIB is funded by employer premiums and does not receive any government funding or assistance. Revenues are also earned from a diversified investment portfolio held to meet future obligations on existing claims.

The WSIB's registered office is located at 200 Front Street West, Toronto, Ontario, M5V 3J1.

## 2. Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These unaudited condensed interim consolidated financial statements should be read in conjunction with the annual information available in the consolidated financial statements and the accompanying notes for the year ended December 31, 2019. Except as noted in note 3, these unaudited condensed interim consolidated financial statements have been prepared on a basis consistent with the policies and methods outlined in the notes to the consolidated financial statements for the year ended December 31, 2019.

These unaudited condensed interim consolidated financial statements were authorized for issuance by the WSIB's Board of Directors on June 24, 2020.

## 3. Significant accounting policies, estimates and assumptions

The WSIB is required to apply judgment in its accounting policies, estimates and assumptions that affect the reported amounts recognized in these unaudited condensed interim consolidated financial statements. The accounting policies, significant estimates and assumptions that are significant in these unaudited condensed interim consolidated financial statements are consistent with those applied in the annual information provided in the consolidated financial statements for the year ended December 31, 2019

### (a) Impact of the COVID-19 pandemic

The WSIB has been closely monitoring developments related to COVID-19 and its existing and potential impact on the WSIB's results and operations.

Additional measurement uncertainty exists in the key unobservable inputs used in assessing the fair value of certain financial instruments and investment properties, which is driven largely by the limited information available. For real estate related investments, the key unobservable inputs include the discount rate and the terminal capitalization rate. For infrastructure investments, the key unobservable inputs include the discount rate and expected future cash flows.

The impact of COVID-19 on the employee benefit liability may be reflected on the fair value of plan assets. Further, there is increased uncertainty in the present value of the pension obligation as it includes management's estimates and assumptions of compensation increases, health care cost trend rates, mortality, retirement ages of employees, and discount rates.

**Notes to Condensed Interim Consolidated Financial Statements**
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There is increased uncertainty in the estimates and assumptions used in the actuarial valuation of the benefit liability. These estimates and assumptions include claim duration, mortality rates, wage and health care escalations, general inflation, discount rates and COVID-19 related claims.

As part of the effort to help reduce the financial burden of the COVID-19 situation, the WSIB, in partnership with the Government of Ontario, has offered a financial relief package allowing employers to defer premium reporting and payments until August 31, 2020, with no interest or penalties accruing during the deferral period. As a result of COVID-19, the WSIB may experience challenges in collecting the deferred and future premium revenues from certain employers, with some possibly defaulting on their premium payables. This has introduced additional uncertainty around estimates and assumptions used in the recognition of premium revenues and allowance for doubtful accounts. Specifically, critical assumptions including employment rate, average wage, and real GDP growth rate as it applies to Ontario's economic outlook as well as WSIB's current quarter cash collection experience have been utilized.

The WSIB has applied valuation techniques using estimates and assumptions that reflect information available when these unaudited condensed interim consolidated financial statements were prepared and management believes that the amounts recorded are appropriate. Changes in these key estimates and assumptions could materially impact the carrying values of the respective assets and liabilities.

**(b) Standards and amendments adopted during the current year**

**Amendments to IFRS 3 *Business Combinations*** ("IFRS 3")

In October 2018, the IASB issued amendments to IFRS 3, which clarify that to be considered a business, an acquired set of activities must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The amendments were effective for annual reporting periods beginning on or after January 1, 2020. The adoption of these amendments did not have a significant impact on the WSIB's unaudited condensed interim consolidated financial statements.

**Amendments to IAS 1 *Presentation of Financial Statements*** ("IAS 1") **and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*** ("IAS 8")

In October 2018, the IASB issued amendments to IAS 1 and IAS 8. The amendments clarify the definition of "material". The amendments were effective for annual reporting periods beginning on or after January 1, 2020. The adoption of these amendments did not have a significant impact on the WSIB's unaudited condensed interim consolidated financial statements.

**(c) Future changes in accounting standards**

**IFRS 17 *Insurance Contracts*** ("IFRS 17")

In May 2017, the IASB issued IFRS 17, which replaces the guidance in IFRS 4 *Insurance Contracts* and establishes a comprehensive principles-based framework for the recognition, measurement, and presentation of insurance contracts. Based on the recent decision by the IASB in March 2020, the WSIB will adopt the standard on the effective date of January 1, 2023. The WSIB is currently assessing the impact of adopting this standard and expects that it will have a significant impact on the WSIB's consolidated financial statements.

**IFRS 9 *Financial Instruments*** ("IFRS 9")

In July 2014, the IASB issued the final version of IFRS 9, which will replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting.

Based on the recent decision by the IASB in March 2020, the WSIB will defer IFRS 9 until January 1, 2023, which is the same effective date as IFRS 17, as allowed under the amendments to IFRS 4 for companies whose activities are predominantly related to insurance (that is, insurance liabilities represent more than 80% of total liabilities). Based on the nature of the WSIB's financial instruments, adoption of IFRS 9 is not expected to have a significant impact on the WSIB's consolidated financial statements as most of the WSIB's financial instruments are measured at fair value.

**Unaudited (millions of Canadian dollars)**

## 4. Receivables and other assets

Receivables and other assets are comprised of the following:

| | March 31 2020 | December 31 2019 |
|---|---|---|
| Premium receivables | 262 | 357 |
| Accrued premium receivables | 291 | 396 |
| *Less:* Allowance for doubtful accounts | (146) | (139) |
| **Net premium receivables** | **407** | **614** |
| Investment receivables[1] | 552 | 298 |
| **Total receivables** | **959** | **912** |
| Other assets[2] | 403 | 385 |
| **Total receivables and other assets** | **1,362** | **1,297** |

1. Investment receivables include amounts of $10 (2019 – $5) which are expected to be received over a period of more than one year.
2. Other assets include employer incentive program surcharges of $317 (2019 – $309) which are expected to be received over a period of more than one year.

## 5. Net investment income (loss)

Net investment income (loss) by nature of invested assets for the three months ended March 31 is as follows:

| | Three months ended March 31 | |
|---|---|---|
| | **2020** | **2019** |
| Cash and cash equivalents | 5 | 4 |
| Public equity securities | (2,352) | 1,276 |
| Fixed income securities | 235 | 155 |
| Derivative financial instruments | (1,604) | 502 |
| Investment properties | 3 | 18 |
| Investments in associates and joint ventures | 21 | 18 |
| Other invested assets | | |
| Investment funds | 161 | 80 |
| Infrastructure related investments | (1) | (12) |
| Real estate related investments | (4) | (7) |
| *Add (Less)*: Income attributable to Loss of Retirement Income Fund | 147 | (89) |
| **Investment income (loss)** | **(3,389)** | **1,945** |
| *Less:* Investment expenses[1] | (92) | (64) |
| **Net investment income (loss)** | **(3,481)** | **1,881** |

1. Includes $37 of management fees paid to investment managers for the three months ended March 31, 2020 (2019 – $33).

**Notes to Condensed Interim Consolidated Financial Statements**
**March 31, 2020**
**Unaudited (millions of Canadian dollars)**

## 6. Fair value measurement and disclosures

### Fair value hierarchy

The WSIB uses a fair value hierarchy to categorize the inputs used in valuation techniques to estimate the fair values of assets and liabilities.

The table below provides a general description of the valuation methods used for fair value measurements.

| Hierarchy level | Valuation methods |
|---|---|
| Level 1 | Fair value is based on unadjusted quoted market prices in active markets for identical assets or liabilities that the WSIB has the ability to access at the measurement date. |
| Level 2 | Fair value is based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or model inputs that are either observable or can be corroborated by observable market data for the assets or liabilities. |
| Level 3 | Fair value is measured using significant non-market observable inputs. These include valuations for assets and liabilities that are derived using information, some or all of which are not market observable, as well as assumptions about risk. |

Measurements of the fair value of an asset or liability may use multiple inputs that are categorized in different levels of the fair value hierarchy. In these cases, the asset or liability is classified in the hierarchy level of the lowest level input that is significant to the measurement.

**Notes to Condensed Interim Consolidated Financial Statements**
**March 31, 2020**
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The following table provides the fair value hierarchy classifications for assets and liabilities:

| | March 31, 2020 | | | | December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets and liabilities measured at fair value** | | | | | | | | |
| Cash and cash equivalents[1] | 1,862 | 1,451 | - | **3,313** | 1,270 | 2,138 | - | **3,408** |
| Public equity securities | 12,136 | 43 | - | **12,179** | 14,833 | 82 | - | **14,915** |
| Fixed income securities | - | 6,597 | - | **6,597** | - | 7,728 | - | **7,728** |
| Derivative assets | 330 | 71 | - | **401** | 54 | 169 | - | **223** |
| Investment properties[2] | - | - | 1,214 | **1,214** | - | - | 1,368 | **1,368** |
| Other invested assets | | | | | | | | |
| Investment funds | - | - | 8,313 | **8,313** | - | - | 8,161 | **8,161** |
| Infrastructure related investments | - | - | 140 | **140** | - | - | 144 | **144** |
| Real estate related investments | - | - | 473 | **473** | - | - | 478 | **478** |
| Derivative liabilities | (272) | (190) | - | **(462)** | (55) | (17) | - | **(72)** |
| **Assets and liabilities for which fair value is disclosed** | | | | | | | | |
| Investment receivables[1] | - | 552 | - | **552** | - | 298 | - | **298** |
| Administration payables[1] | (325) | - | - | **(325)** | (342) | - | - | **(342)** |
| Investment payables[1] | | (140) | - | **(140)** | - | (54) | - | **(54)** |
| Long-term debt[3] | - | (72) | - | **(72)** | - | (68) | - | **(68)** |
| Loss of Retirement Income Fund liability | - | - | (1,835) | **(1,835)** | - | - | (2,000) | **(2,000)** |

1. The carrying amounts (less allowance for impairment) of cash and cash equivalents, investment receivables and administration and investment payables approximate their fair values.
2. Investment properties include a right of use asset of $10 (December 31, 2019 – $30).
3. Carrying amount as at March 31, 2020 was $70 (December 31, 2019 – $70).

Transfers between levels within the hierarchy are recognized at the end of the reporting period.

During the three months ended March 31, 2020 and March 31, 2019, there were no transfers between Level 1 and Level 2.

During the three months ended March 31, 2020 and March 31, 2019, there were no transfers between Level 2 and Level 3.

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### Level 3 fair value measurements

The following tables provide reconciliations of assets included in Level 3 of the fair value hierarchy:

| | **Other invested assets** | | | | | |
|---|---|---|---|---|---|---|
| **For the three months ended March 31, 2020** | Investment funds | Infrastructure related investments | Real estate related investments | **Subtotal** | **Investment properties** | **Total** |
| Balance as at January 1, 2020 | 8,161 | 144 | 478 | 8,783 | 1,368 | 10,151 |
| Net gains (losses) recognized in net investment income (loss) | 46 | (4) | (5) | 37 | (14) | 23 |
| Foreign translation losses recognized in other comprehensive income | (21) | - | - | (21) | - | (21) |
| Purchases | 537 | - | - | 537 | - | 537 |
| Sales | (410) | - | - | (410) | (150) | (560) |
| Capital expenditures | - | - | - | - | 10 | 10 |
| **Balance as at March 31, 2020** | **8,313** | **140** | **473** | **8,926** | **1,214** | **10,140** |
| **Changes in unrealized losses included in earnings for assets and liabilities for positions still held** | **(58)** | **(3)** | **(5)** | **(66)** | **(14)** | **(80)** |

| | **Other invested assets** | | | | | |
|---|---|---|---|---|---|---|
| **For the three months ended March 31, 2019** | Investment funds | Infrastructure related investments | Real estate related investments | **Subtotal** | **Investment properties** | **Total** |
| Balance as at January 1, 2019 | 8,032 | 412 | 485 | 8,929 | 1,412 | 10,341 |
| Net gains (losses) recognized in net investment income (loss) | (78) | 3 | (6) | (81) | 4 | (77) |
| Foreign translation losses recognized in other comprehensive income | (17) | (17) | - | (34) | - | (34) |
| Purchases | 117 | - | 1 | 118 | - | 118 |
| Sales | (517) | - | - | (517) | - | (517) |
| Capital expenditures | - | - | - | - | 9 | 9 |
| **Balance as at March 31, 2019** | **7,537** | **398** | **480** | **8,415** | **1,425** | **9,840** |
| **Changes in unrealized gains (losses) included in earnings for assets and liabilities for positions still held** | **(133)** | **(14)** | **(6)** | **(153)** | **4** | **(149)** |

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The following table summarizes the valuation methods and quantitative information about the significant unobservable inputs used in Level 3 financial instruments:

| | Valuation methods | Key unobservable inputs | March 31, 2020 Range of inputs | | December 31, 2019 Range of inputs | |
|---|---|---|---|---|---|---|
| | | | Low | High | Low | High |
| **Investment funds** | Net asset value | Net asset value | n/a | n/a | n/a | n/a |
| **Infrastructure related investments** | Discounted cash flow and market comparable | Discount rate and expected future cash flows | n/a | n/a | n/a | n/a |
| **Real estate related investments and investment properties** | Discounted cash flow and market comparable | Discount rate | 5.0% | 8.0% | 4.8% | 7.8% |
| | | Terminal capitalization rate | 4.3% | 7.0% | 4.3% | 7.3% |
| **Loss of Retirement Income Fund liability** | Net asset value | Net asset value | n/a | n/a | n/a | n/a |

### Sensitivity of Level 3 financial instruments

Fair values of investment funds are based on net asset values provided by investment managers.

Fair values of infrastructure related investments are based on valuations obtained from investment managers. The WSIB assesses the reasonableness of these fair values based on periodic appraisals performed by independent qualified appraisers. The valuations of infrastructure related investments obtained from investment managers are based on comparable transactions in the market and discounted cash flow models using unobservable inputs such as discount rates, terminal values and expected future cash flows. Holding other factors constant, an increase to terminal values or expected future cash flows would tend to increase the fair value, while an increase in the discount rate would have the opposite effect.

Fair values of real estate related investments and investment properties are obtained from qualified appraisers who apply a discounted cash flow model to determine property values. Key unobservable inputs include discount and terminal capitalization rates, projected rental income and expenses, inflation rates and vacancy rates. Holding other factors constant, an increase to projected rental income would increase the fair values, while an increase in the inputs for the discount rates and terminal capitalization rates would have the opposite effect.

Fair values of the Loss of Retirement Income Fund liability are based on the fair values of the assets in the Loss of Retirement Income Fund.

The WSIB has not applied another reasonably possible alternative assumption to the significant Level 3 categories as the net asset values and appraised fair values are provided by the investment managers and other third-party appraisers.

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## 7. Employee benefit plans

### Employee benefit plans expense

The cost of the employee benefit plans recognized in administration and other expenses for the three months ended March 31 is as follows:

| | Pension plans | | Other benefits | | Total | |
|---|---|---|---|---|---|---|
| **For the three months ended March 31** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Current service cost | 34 | 26 | 6 | 4 | 40 | 30 |
| Net interest on the employee benefit plans liability | 9 | 8 | 7 | 7 | 16 | 15 |
| Long-term employee benefit losses (gains) | - | - | (1) | 2 | (1) | 2 |
| **Employee benefit plans expense** | **43** | **34** | **12** | **13** | **55** | **47** |

Amounts recognized in other comprehensive income (loss) for the three months ended March 31 are as follows:

| | Pension plans | | Other benefits | | Total | |
|---|---|---|---|---|---|---|
| **For the three months ended March 31** | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Actuarial gains (losses) arising from: | | | | | | |
| Financial assumptions | 438 | (420) | 105 | (83) | 543 | (503) |
| Plan experience | 1 | - | - | - | 1 | - |
| Return on plan assets excluding interest income | (351) | 151 | - | - | (351) | 151 |
| **Remeasurements of employee benefit plans** | **88** | **(269)** | **105** | **(83)** | **193** | **(352)** |

### Employee benefit plans liability

The employee benefit plans liability is comprised of the following:

| | Pension plans | | Other benefits | | Total | |
|---|---|---|---|---|---|---|
| | **Mar. 31 2020** | **Dec. 31 2019** | **Mar. 31 2020** | **Dec. 31 2019** | **Mar. 31 2020** | **Dec. 31 2019** |
| Present value of obligations[1] | 4,221 | 4,620 | 806 | 911 | 5,027 | 5,531 |
| Fair value of plan assets | (3,228) | (3,560) | - | - | (3,228) | (3,560) |
| **Employee benefit plans liability** | **993** | **1,060** | **806** | **911** | **1,799** | **1,971** |

1. The WSIB's pension plans are wholly or partly funded whereas the WSIB's other benefits are wholly unfunded.

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## 8. Premium revenues

A summary of premiums for the three months ended March 31 is as follows:

| | Three months ended March 31 | |
|---|---|---|
| | **2020** | **2019** |
| Gross Schedule 1 premiums | 699 | 882 |
| Bad debts | (16) | (20) |
| Interest and penalties | 16 | 16 |
| Other income | 1 | 1 |
| **Schedule 1 employer premiums** | **700** | **879** |
| Schedule 2 employer administration fees | 24 | 21 |
| **Premiums** | **724** | **900** |
| Net mandatory employer incentive programs[1] | 3 | (24) |
| **Net premiums** | **727** | **876** |

1. Prior to January 1, 2020, Schedule 1 employers participated in mandatory employer incentive programs that may have resulted in adjustments to premium rates. Effective January 1, 2020, the WSIB transitioned to the new premium rate-setting model, which eliminates the needs of such adjustments to premium rates. The amount for the three months ended March 31, 2020 represents the net payouts for mandatory employer incentive programs that are related to previous years.

## 9. Benefit liabilities

Benefit liabilities are comprised of the following:

| | **March 31 2020** | **December 31 2019** |
|---|---|---|
| Loss of earnings | 8,533 | 8,493 |
| Workers' pensions | 5,430 | 5,491 |
| Health care | 4,638 | 4,588 |
| Survivor benefits | 3,010 | 2,995 |
| Future economic loss | 844 | 873 |
| External providers | 98 | 97 |
| Non-economic loss | 310 | 310 |
| Long latency occupational diseases | 2,421 | 2,395 |
| Claim administration costs | 1,361 | 1,355 |
| Loss of Retirement Income | 513 | 513 |
| **Benefit liabilities** | **27,158** | **27,110** |

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## 10. Total claim payments

### Claim payments

| | Three months ended March 31 | |
|---|---|---|
| | **2020** | **2019** |
| Loss of earnings | 262 | 242 |
| Workers' pensions | 122 | 130 |
| Health care | 151 | 143 |
| Survivor benefits | 52 | 53 |
| Future economic loss | 39 | 43 |
| External providers | 7 | 7 |
| Non-economic loss | 18 | 11 |
| **Total claim payments** | **651** | **629** |

### Claim administration costs

| | Three months ended March 31 | |
|---|---|---|
| | **2020** | **2019** |
| Allocation from administration and other expenses | 111 | 105 |
| Allocation from legislated obligations and funding commitments expenses | 6 | 6 |
| **Total claim administration costs** | **117** | **111** |

### Change in actuarial valuation of benefit liabilities

| | Three months ended March 31 | |
|---|---|---|
| | **2020** | **2019** |
| Change in actuarial valuation of benefit liabilities | 48 | 82 |

For the three months ended March 31, 2020, the change in actuarial valuation of benefit liabilities is detailed as follows:

| **(millions of Canadian dollars)** | |
|---|---|
| **Benefit liabilities as at December 31, 2019** | **27,110** |
| Payments made in 2020 for prior injury years (include Loss of Retirement income and claims administration costs) | (720) |
| Interest accretion[1] | 355 |
| Liabilities incurred for the 2020 injury year | 420 |
| Experience gains | (7) |
| **Benefit liabilities as at March 31, 2020** | **27,158** |
| **Change in actuarial valuation of benefit liabilities** | 48 |

1. Accretion represents the estimated interest cost of the benefit liabilities, considering the discount rate, benefit liabilities at the beginning of the year and payments made during the period.

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## 11. Administration and other expenses

| | Three months ended March 31 | |
|---|---|---|
| | **2020** | **2019**[1] |
| Salaries and short-term benefits | 115 | 112 |
| Employee benefit plans | 55 | 47 |
| Depreciation and amortization | 12 | 12 |
| Other | 55 | 49 |
| | **237** | **220** |
| Claim administration costs allocated to claim costs | (111) | (105) |
| **Total administration and other expenses** | **126** | **115** |

1. Certain comparative amounts have been reclassified to be consistent with the current period's presentation.

## 12. Commitments and contingent liabilities

### (a) Investment commitments

The WSIB had the following commitments for capital calls related to its investment portfolio:

| | **March 31 2020** | **December 31 2019** |
|---|---|---|
| Investment funds, infrastructure and real estate related investments | 2,148 | 2,204 |
| Investments in associates and joint ventures | 527 | 517 |
| Purchases or development of investment properties | 2 | 14 |
| **Total investment commitments** | **2,677** | **2,735** |

There was no specific timing requirement to fulfill these commitments during the investment period.

### (a) Legislated obligations and funding commitments

Known commitments related to legislated obligations and funding commitments as at March 31, 2020 were approximately $267 for the period from April 1, 2020 to March 31, 2021.

### (b) Legal actions

The WSIB is engaged in various legal proceedings and claims that have arisen in the ordinary course of business, the outcome of which is subject to future resolution. Based on information currently known to the WSIB, management believes the probable ultimate resolution of all existing legal proceedings and claims will not have a material effect on the WSIB's financial position.