Workplace Safety and Insurance Board

2020 Annual Sufficiency Report

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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, Training and Skills Development (the "Minister") 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, 2020, and the audited Sufficiency Statement as at December 31, 2020.

Tom Bell
President and Chief Executive Officer
April 22, 2021
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 3 to the Sufficiency Statement. The insurance fund liabilities, known as the Sufficiency Ratio liabilities, are described in note 4 to the Sufficiency Statement.

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

2. Year to date review

Our performance for the year ended December 31, 2020 and the effect on our Sufficiency Ratio.

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

(millions of Canadian dollars)	**2020**	**2019**	**Change $**	**Change %**
Sufficiency Ratio assets	37,419	35,503	1,916	5.4
Sufficiency Ratio liabilities	(31,893)	(31,234)	(659)	(2.1)
Net assets on a Sufficiency Ratio basis	5,526	4,269	1,257	
Sufficiency Ratio	**117.3%**	**113.7%**		**3.6**

As shown above, as at December 31, 2020, the WSIB had net assets on a Sufficiency Ratio basis of $5,526 million. This means that the Sufficiency Ratio assets exceeded the Sufficiency Ratio liabilities and the WSIB had 117.3% of the assets required to meet its future obligations.

The increase in the Sufficiency Ratio was primarily attributable to the deferral of current period investment returns that were below the net expected long-term annual return, recognition of deferred investment income from prior years and the going concern adjustments of the employee benefit plans liability.

The Sufficiency Ratio of 117.3% as at December 31, 2020 exceeds the legislated 100% funding level required on December 31, 2027. See Section 3 – Our funding strategy.

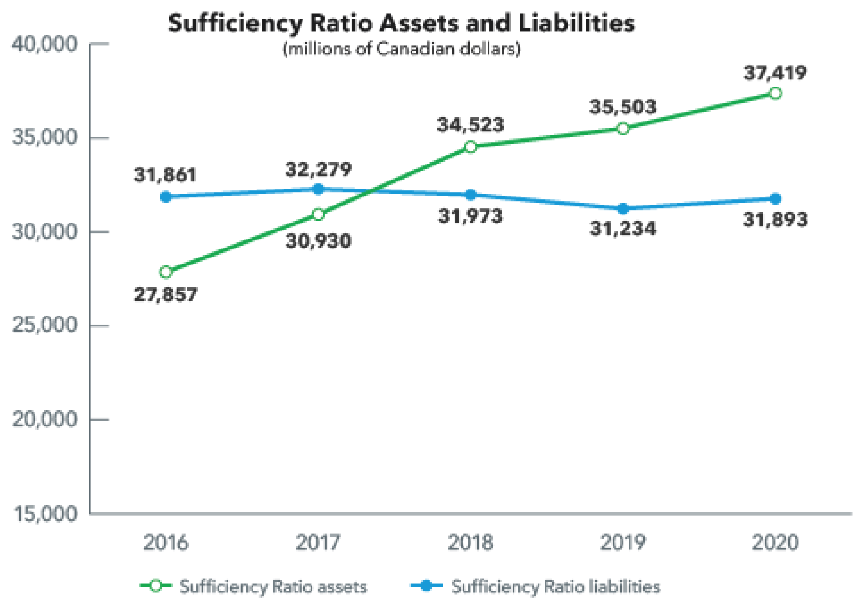
The change in net assets on a Sufficiency Ratio basis is due to the following:

(millions of Canadian dollars)	
Net assets on a Sufficiency Ratio basis as at December 31, 2019	4,269
Interest on net assets[1]	203
Investment return net adjustment[2]	479
Gain from remeasurements of employee benefit plans	84
Lower claims than expected[3]	303
Net asset increase from assumption changes[4]	188
Net assets on a Sufficiency Ratio basis as at December 31, 2020	**5,526**
Change in the net assets on a Sufficiency Ratio basis	**1,257**

1. Interest accretion on the beginning position of net assets using the discount rate of 4.75%.
2. Loss from investment income lower than expected of $109 million plus the deferral of current loss from investment income lower than expected of $300 million plus amortization of prior deferred net investment gains of $537 million less net of non-controlling interests and translation losses of $248 million.
3. Experience gains on prior injury years plus comprehensive income on current injury year. Experience gain on claims can be found in Section 6 of Management's discussion and analysis of the 2020 audited consolidated financial statements.
4. A comprehensive summary of changes in actuarial assumptions and methods can be found in note 20 of the 2020 audited consolidated financial statements.

Sufficiency Ratio assets and liabilities

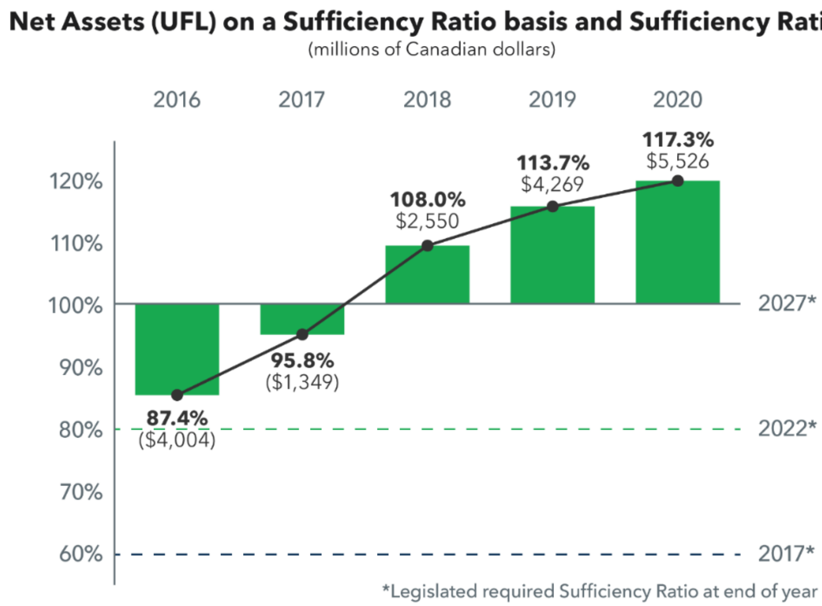
The invested assets used in the Sufficiency Ratio calculation are adjusted to recognize a portion of the investment gains and losses that occurred over a five-year period, to reduce the volatility of the investment returns. The graph below shows the Sufficiency Ratio assets and liabilities over the last 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 Sufficiency Ratio assets is primarily driven by higher cash and accounts receivable, partially offset by a decrease in invested assets largely due to lower returns in the current year and adjustments for deferred investment returns that were above or below the net expected long-term annual return in prior years.

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, with the retirement of the unfunded liability in the second quarter of 2018. The WSIB has since continued in a net assets position with a Sufficiency Ratio of 117.3% as at December 31, 2020. This achievement has exceeded 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*, as amended, the WSIB submitted the 2020 Economic Statement to the Minister in September 2020. The economic statement includes the sufficiency outlook, which describes the measures being taken by the WSIB to ensure that we have a high degree of confidence that our insurance fund will not fall below 100% funding. Concurrent with the release of the 2020 Economic Statement, the WSIB announced there will be no premium rate increase for 2021, and this rate will be held at the 2020 average Schedule 1 rate of $1.37.

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 recommend and management to advise the WSIB as to the margin of prudence that should be maintained over and above the legislated requirement to ensure that we have a high degree of confidence that our insurance fund will not fall below 100% funding.

4. Insurance funding risk

Insurance funding risk refers to the risk that the WSIB may be underfunded or overfunded relative to the level of funding necessary to maintain a high level of assurance that the Sufficiency Ratio does not fall below 100%. As of the end of Q4 2020, our Sufficiency Ratio is at 117.3%. The risk of underfunding is projected to remain low if benefits remain unchanged, New Claim Costs ("NCC") continue to stabilize, and investment returns are in line with the WSIB's long-term return objective of earning at least 5% net of investment expenses.

To safeguard benefits and offer premium rate stability for employers, the WSIB must ensure that it can be financially sustainable and withstand economic shocks by managing insurance funding risk. For this reason, the WSIB has been reviewing its Funding Policy and the key parameters that govern funding and pricing decisions in conformance with the WSIB's insurance funding risk appetite statement. Additionally, the WSIB continues to consult with the government, with consideration given to recommendations from the Ontario government's operational review of the WSIB[1], to establish a responsible reserve threshold above 100% funding.

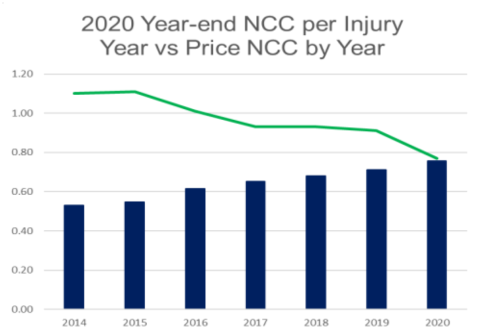
The progress made toward financial sustainability allowed the WSIB to reduce average premium rates by 29.8% for 2019 and a further 17.0% for 2020. Furthermore, it has allowed the WSIB to provide relief to employers during the COVID-19 crisis in the form of deferred premiums and waived interest and penalties.

Our mitigation of insurance funding 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;
- Monitoring for potential legislative changes that could impact benefit liabilities or costs;
- Conducting periodic asset-liability studies to ensure the WSIB's long-term return objective and asset mix policy remain relevant, with consideration of the impacts of economic and other risk factors on the funding position and desired level of funding;
- Assessing actual investment performance relative to the WSIB's return objective and asset mix policy; and
- Ensuring strong investment governance, effective diversification of assets, efficient cost structure and rigorous risk management of investment assets.

Additionally, the WSIB monitors the adequacy of NCC pricing by comparing the expected NCC priced into premium rates with that actually experienced as shown in the following graph.

[1] Regner-Dykeman, Linda & Speer, Sean (2020, November 6), Workplace Safety and Insurance Board Operational Review Report



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.

The COVID-19 pandemic has caused a sharp contraction in economic activity throughout the world, with lockdowns bringing a halt to non-essential activities in most countries. The global economy recovered part of the lost ground in the second half of 2020, but ongoing waves of the pandemic as non-essential activities resume and the virus mutates will slow the pace of recovery. In Canada, localized closures to deal with regional COVID-19 outbreaks and the slowing of business activity are likely to hold back the pace of recovery into mid-2021. A successful rollout of vaccines will help turn the corner against the pandemic. The federal and provincial governments also continue to support businesses and households. This is driving up public debt to record levels. An already high level of debt and a large COVID-19-related deficit mean government spending will be restrained in at least the medium term, which adds to uncertainty about long-term economic growth prospects. However, the government stimulus as well as low interest rates are expected to support a surge in retail spending in mid-2021. This is expected to lead to a more stable business environment in the latter part of 2021. The Conference Board of Canada forecasts real GDP to post growth of 5.3% in 2021 and 3.5% in 2022.[2]

The business contraction in Ontario as a result of COVID-19 is anticipated to lead to a reduction in insurable earnings of registered premium-paying employers, resulting in lower premium revenues. Further, the WSIB may experience challenges in collecting deferred and future premium revenues from certain employers, with some possibly defaulting on their premium payables. The increase to financial risk as a result of COVID-19 has also been reflected in volatile investment returns. The investment portfolio's gross return of 5.0% in the fourth quarter brought the total gross return in 2020 to 4.6%, a significant improvement from a gross return of -9.2% in the first quarter.

The WSIB has taken responsive actions to monitor, assess, and manage heightened risks by closely monitoring insurable earnings, premium revenues, claims developments, investment performance, liquidity, and operational cash flows. Additionally, stress tests have been conducted on a range of hypothetical scenarios including contraction of premium revenues and negative investment returns in order to assess impacts on liquidity and the Sufficiency Ratio. It is also important to note that the WSIB's funding sufficiency position is buffered from the impact of significant investment losses as investment losses (and gains) relative to the expected net long-term return objective are amortized over five years, reducing their immediate impact.

[2] The Conference Board of Canada, Recovery Rests on Vaccine Rollout: Canada's Two-Year Outlook — January 2021

As well, in order to further mitigate liquidity risks and provide the WSIB with flexibility to manage uncertainties due to COVID-19, the WSIB established a revolving line of credit in the amount of $900 million with the Ontario Financing Authority for a 14-month period beginning in October 2020. As at December 31, 2020, $400 million was drawn against the revolving line of credit.

The WSIB continues to maintain a stable liquidity position, and we remain confident in our ability to maintain sufficient funding to sustain benefits for injured workers. Management will continue to monitor emerging economic risk indicators and other developments in consideration of potential long-term adverse implications on employers and the Ontario economy, as well as WSIB operations, funding and investments.

While the WSIB monitors a portfolio of significant enterprise risks impacting our business, the insurance funding risk is the risk that is of greatest importance with respect to the WSIB's Fourth Quarter 2020 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 in the WSIB's 2020 Annual 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 WSIB 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 *WSIA, 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 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.

Tom Bell
President and Chief Executive Officer
April 22, 2021
Toronto, Ontario

Ernest Chui
Chief Financial Officer

Independent auditor's report

To the Board of Directors of the Workplace Safety and Insurance Board,
The Minister of Labour, Training and Skills Development 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, 2020 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, 2020, in accordance with the basis of accounting described in Notes 3 and 4.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. 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 3 and 4 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.

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.

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 3 and 4; 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 related 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.

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 Canadian generally accepted auditing standards 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 Canadian generally accepted auditing standards, 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 WSIB'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.

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.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
April 22, 2021

Sufficiency Ratio Statement
December 31, 2020
(millions of Canadian dollars)

Sufficiency Ratio Statement

	Note(s)	Dec. 31 2020	Dec. 31 2019
Total assets under IFRS	3,5	40,837	40,536
Less: Asset adjustment	3	(849)	(1,686)
Less: Sufficiency Ratio non-controlling interests	3	(2,569)	(3,347)
Sufficiency Ratio assets		37,419	35,503
Sufficiency Ratio liabilities	4	31,893	31,234
Sufficiency Ratio (assets divided by liabilities)		**117.3%**	**113.7%**

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

Notes to Sufficiency Ratio Statement
December 31, 2020
(millions of Canadian dollars)

1. Sufficiency Ratio – impact of the COVID-19 pandemic

In order to derive the assets and liabilities used in the calculation of the Sufficiency Ratio, the consolidated financial statements of the WSIB prepared in accordance with International Financial Reporting Standards ("IFRS") have been adjusted as required by the Sufficiency Regulation.

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, offered a financial relief package allowing employers to defer premium reporting and payments for the period from March 2020 until August 2020, with no interest or penalties accruing during the deferral period. Employers participating in the financial relief package were required to report deferred premiums by October 31, 2020, with repayment of these amounts from January 2021 to June 2021. Regular monthly and quarterly reporting and payment schedules resumed in September 2020 for all employers. COVID-19 has introduced additional uncertainty around estimates and assumptions used in the recognition of an allowance for doubtful accounts due to the deferral and payment option.

COVID-19 presents additional measurement uncertainty in the key unobservable inputs used in assessing the fair value of certain financial instruments and investment properties. This uncertainty impacts the WSIB's private market investments, which include credit, private equity, real estate and infrastructure investments. The valuation of these investments is dependent on key unobservable inputs, which include discount rates, terminal capitalization rates, and expected cash flows.

The WSIB is required to assess if an investment in an associate or joint venture is impaired and impairment losses are recognized if, and only if, there is objective evidence of impairment. An impairment loss related to the associate or joint venture is the amount by which the carrying amount exceeds its estimated recoverable amount. The estimated recoverable amount uses management's best estimates of fair value as well as the present value of future cash flows based on current and anticipated market conditions.

The impact of COVID-19 on the employee benefit plans 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, mortality, retirement ages of employees and discount rates.

There is increased uncertainty in the estimates and assumptions used in the actuarial valuation of the benefit liabilities. These estimates and assumptions include claim duration, mortality rates, wage and health care escalations, general inflation, discount rates and COVID-19-related claims.

The WSIB has applied valuation techniques using estimates and assumptions that reflect information available when these 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.

Notes to Sufficiency Ratio Statement
December 31, 2020
(millions of Canadian dollars)

2. 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 3 below. The insurance fund liabilities, known as Sufficiency Ratio liabilities, are described in note 4.

3. 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, 2020, the Sufficiency Ratio assets reflected an asset adjustment gain of $849 (2019 – $1,686) representing the unrecognized investment returns in excess of the expected long-term annual rate of return assumption, net of investment expenses.

Notes to Sufficiency Ratio Statement
December 31, 2020
(millions of Canadian dollars)

The development of the asset adjustment is detailed as follows:

	2016	2017	2018	2019	2020
Fair value of invested assets	29,366	33,996	34,872	38,959	38,271
Add (Less): Cash transfers in last month of year	(36)	(44)	(33)	8	12
Adjusted fair value of invested assets[1]	29,330	33,952	34,839	38,967	38,283
Less: Invested assets at expected rate of return[2]	29,070	32,200	36,807	36,324	38,658
Investment returns in excess of (lower than) expectations[3], gain (loss)	260	1,752	(1,968)	2,643	(375)
Add (Less): Unrecognized investment returns at prior year-end	981	779	1,720	(423)	1,686
Total unrecognized investment returns	**1,241**	**2,531**	**(248)**	**2,220**	**1,311**
Amount to be recognized from:					
2020 investment loss				-	(75)
2019 investment gain	-	-	-	528	529
2018 investment loss	-	-	(393)	(394)	(394)
2017 investment gain	-	350	351	351	350
2016 investment gain	52	52	52	52	52
2015 investment loss	(3)	(3)	(4)	(3)	-
2014 investment gain	170	169	169	-	-
2013 investment gain	243	243	-	-	-
***Less*: Total recognized investment returns in current year**	**462**	**811**	**175**	**534**	**462**
Total unrecognized investment returns at end of year[4]	**779**	**1,720**	**(423)**	**1,686**	**849**

1. Represents the fair value of invested assets at the end of the year, 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 year. The expected long-term annual rates of return have varied by year and are as follows:

Year	2016	2017	2018	2019	2020
Net long-term return objective, annualized	5.25%	4.75%	4.75%	4.75%	5.00%

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 year.

Notes to Sufficiency Ratio Statement
December 31, 2020
(millions of Canadian dollars)

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 gain/(loss) as at December 31, 2020**	**2021**	**2022**	**2023**	**2024**
2020	(300)	75	75	75	75
2019	1,586	(529)	(528)	(529)	-
2018	(787)	393	394	-	-
2017	350	(350)	-	-	-
	849	**(411)**	**(59)**	**(454)**	**75**

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

	Dec. 31 2020	**Dec. 31 2019**
Fair value of non-controlling interests	2,502	3,431
Add (Less): Asset adjustment	67	(84)
Sufficiency Ratio non-controlling interests	2,569	**3,347**

4. 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 2020 annual consolidated financial statements.

Notes to Sufficiency Ratio Statement
December 31, 2020
(millions of Canadian dollars)

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% (2019 – 4.75%) per annum, as described in note 20 of the WSIB's 2020 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 5.00% (2019 – 5.10%) 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 2.60% (2019 – 3.15%) 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 $2,118 (2019 – $1,283).
    - On July 1, 2020, the WSIB Employees' Pension Plan (the "EPP") was amended to convert to a jointly sponsored pension plan. The EPP is a defined benefit pension plan that is jointly sponsored, governed, and funded by the employer and members. The WSIB and the Ontario Compensation Employees Union are the plan sponsors and a Board of Trustees was established to administer the EPP. As a result of this conversion, employee contribution requirements will gradually increase, annually, until both the WSIB and employees are each contributing 50% of the normal cost. Thereafter, the WSIB will only be responsible for 50% of the total costs of the EPP and its associated liability. The impact on the obligation will be reflected at the end of this phase-in period, which will impact the Sufficiency Ratio. It is estimated that the employee contributions will equal the WSIB contributions in 2029.
- All other liabilities were determined in accordance with IFRS.

The Sufficiency Ratio liabilities are $31,893 (2019 – $31,234), which includes the adjustment of $2,118 (2019 – $1,283). Additional details of the breakdown of the liabilities are shown in note 5.

Notes to Sufficiency Ratio Statement
December 31, 2020
(millions of Canadian dollars)

5. 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, 2020 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.

	December 31, 2020			December 31, 2019		
	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis
Assets						
Cash and cash equivalents	4,969	-	4,969	3,408	-	3,408
Receivables and other assets	2,171	-	2,171	1,297	-	1,297
Investments	33,362	(849)[1]	32,513	35,475	(1,686)[1]	33,789
Property, equipment and intangible assets	335	-	335	356	-	356
Total assets	**40,837**	**(849)**	**39,988**	**40,536**	**(1,686)**	**38,850**
Liabilities						
Payables and other liabilities	1,696	-	1,696	1,163	-	1,163
Borrowings	400	-	400	-	-	-
Derivative liabilities	92	-	92	72	-	72
Long-term debt and lease liabilities	175	-	175	201	-	201
Loss of Retirement Income Fund liability	2,003	-	2,003	2,000	-	2,000
Employee benefit plans liability	2,735	(2,118)[2]	617	1,971	(1,283)[2]	688
Benefit liabilities	26,910	-	26,910	27,110	-	27,110
Total liabilities	**34,011**	**(2,118)**	**31,893**	**32,517**	**(1,283)**	**31,234**
Net assets						
Reserves	5,167	1,202	6,369	4,676	(319)	4,357
Accumulated other comprehensive income	(843)	-	(843)	(88)	-	(88)
Net assets attributable to WSIB stakeholders	**4,324**	**1,202**	**5,526**	**4,588**	**(319)**	**4,269**
Non-controlling interests	2,502	67[1]	2,569	3,431	(84)[1]	3,347
Total net assets	**6,826**	**1,269**	**8,095**	**8,019**	**(403)**	**7,616**
Total liabilities and net assets	**40,837**	**(849)**	**39,988**	**40,536**	**(1,686)**	**38,850**
Sufficiency Ratio			**117.3%**			**113.7%**

1. Reflects the asset adjustment of our total assets shown on our consolidated statements of financial position at the net long-term annual return of objective of 5.00% (2019 – 4.75%), resulting in a decrease of $849 (2019 – $1,686), which includes the increase of the interests in those assets held by third parties (non-controlling interests) of $67 (2019 – decrease of $84).
2. Reflects the use of a going concern discount rate of 5.00% (2019 – 5.10%). For the purposes of the consolidated financial statements, an accounting weighted average discount rate of 2.60% was used as at December 31, 2020 (2019 – 3.15%). 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.

Notes to Sufficiency Ratio Statement
December 31, 2020
(millions of Canadian dollars)

6. Subsequent event

Global Public Equity and Emerging Markets Public Equity Pooled Funds

On February 22, 2021, the Investment Management Corporation of Ontario (“IMCO”) launched the IMCO Global Public Equities Pool (“GPE Pool”) as part of its Pooled Asset Management strategy, which enables entities to “pool” the management of their investments. The WSIB participated in the GPE Pool transferring over $12.08 billion of global public equities. Similarly, on March 22, 2021, IMCO launched the IMCO Emerging Market Public Equity Pool, transferring over $1.73 billion of emerging markets public equities. The WSIB is still assessing the impact of both transfers, but it is expected that $1.20 billion of assets will be derecognized with a corresponding decrease in non-controlling interest.