Workplace Safety and Insurance Board

Third Quarter **2020** Sufficiency Report

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Message from the Chair and President and CEO

The COVID-19 pandemic continues to have a dramatic impact on the way we live and work. We continue to support people who have experienced a work-related injury or illness and businesses to do everything we can to help during this difficult time. We are also doing our part to improve workplace health and safety for all Ontarians.

Throughout Q3 we provided updates on various pandemic response measures and introduced additional supports for those we serve. At our Annual General Meeting we announced premium rate stability – businesses will pay the same rate in 2021 that they paid in 2020 – a prudent approach that will help businesses while protecting coverage for Ontarians.

The premium rate stability builds on our financial relief package that allowed Ontario employers to defer reporting and payment of premiums from March to August 2020. To help further reduce the financial burden, we also informed businesses that repayment of deferred premiums will not be required to begin before January 2021 and can be spread over six months without penalty or interest.

Our strong financial position has allowed us to offer this relief to businesses. We have ended Q3 with 116.6% funding on a Sufficiency Ratio basis, and we are on track to maintain full funding for the remaining months of 2020 and over the next decade.

Operationally our focus remains on improving return-to-work outcomes with some early indications of success. Our expanded online services are also helping to improve people's experiences with us, which is reflected in our customer satisfaction results.

Finally, our Health and Safety Excellence program continues in its initial year to help connect businesses with approved providers to improve health and safety results in workplaces across the province. With five topics addressing immediate pandemic-related priorities to help businesses safely resume operations and remain open, we have already achieved 97% (1,939 registrations) of our 2020 target.

The challenges raised by the pandemic have added urgency to our efforts to better support those we serve. We are determined to improve workplace health and safety, and help those who suffer a work-related injury or illness, and do so in a financially responsible and accountable way.

Elizabeth Witmer
Chair, WSIB
December 10, 2020

Thomas Teahen
President and CEO, WSIB
December 10, 2020

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.

2. Year to date review

Our performance for the nine months ended September 30, 2020 and the effect on our Sufficiency Ratio.

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

(millions of Canadian dollars)	Sep. 30 2020	Dec. 31 2019	Change $	Change %
Sufficiency Ratio assets	36,710	35,503	1,207	3.4
Sufficiency Ratio liabilities	(31,493)	(31,234)	(259)	(0.8)
Net assets on a Sufficiency Ratio basis	5,217	4,269	948	
Sufficiency Ratio	**116.6%**	**113.7%**		**2.9**

As shown above, as at September 30, 2020, the WSIB had net assets on a Sufficiency Ratio basis of $5,217 million. This means that the Sufficiency Ratio assets exceeded the Sufficiency Ratio liabilities and the WSIB had 116.6% of the assets required to meet its potential future obligations.

The increase in the Sufficiency Ratio was primarily attributable to the deferral of current period investment losses, recognition of deferred investment income and the going concern adjustments of the employee benefit plans liability.

The Sufficiency Ratio of 116.6% as at September 30, 2020 exceeds the legislated 100% funding level required on December 31, 2027. See Section 3 – Our funding strategy.

3. Our funding strategy

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

In accordance with *Ontario Regulation 141/12*, as amended, the WSIB submitted the 2020 Economic Statement to the Minister of Labour, Training and Skills Development 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

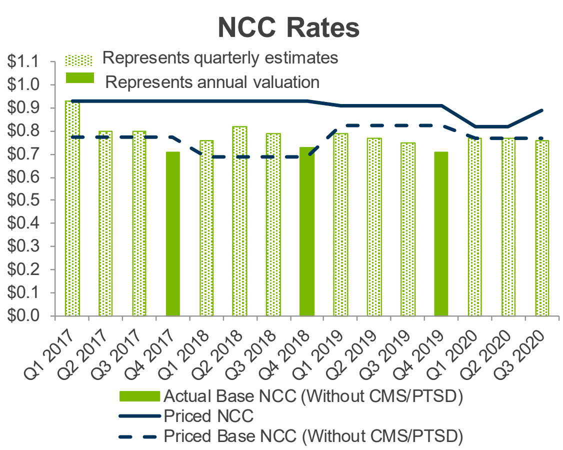
As of Q3 2020, our Sufficiency Ratio is at 116.6%. The risk of underfunding is projected to be low if the benefits remain unchanged, New Claim Costs ("NCC") continue to stabilize, and the second wave of the coronavirus ("COVID-19") pandemic does not induce a devastating impact to the Ontario economy as we move into 2021. In response, the WSIB has undertaken stress testing of investment returns and its sufficiency position based on three hypothetical scenarios that would see investment returns decreasing to -5%, -10% and -15% for the full year in 2020 (returning to 5% thereafter). Additionally, stress tests on a range of hypothetical scenarios to determine impacts on insurable earnings and payment of deferred premiums have also been conducted.

Despite benefiting from a well-funded and strong liquidity position coming into this crisis, financial risk has increased due to the scale and scope of the COVID-19 pandemic. The investment portfolio continued to recover from losses in the first quarter and produced a modest 2.9% rate of return for the third quarter. Although this rate of return is lower than the 6.7% gross return witnessed in the second quarter, it still demonstrates a substantial improvement compared to the dismal -9.2% investment performance realized during the first quarter of 2020. While our long-term investment return objective is planned within an expected range of 3.9% to 6.6%, we expect lower investment returns in 2020 and near-term volatility due to market and economic conditions as a result of COVID-19. In addition, business contraction 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.

In facing this unprecedented economic uncertainty, the WSIB took responsive actions to monitor, assess, and manage risks by closely monitoring investment performance and liquidity, operational cash flows, and claims developments. Notwithstanding, it is 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.

To safeguard benefits and offer premium rate stability for employers, the WSIB must ensure that it can withstand economic shocks. For this reason, the WSIB continues to consult with government, with consideration given to recommendations from the Ontario Government's operational review of 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 in the form of deferred premiums and waived interest and penalties, during the COVID-19 crisis.

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



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

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

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

CMS: Chronic mental stress
PTSD: Post-traumatic stress disorder

In 2020, the WSIB has renewed efforts to review the key parameters that govern funding, pricing and investment decisions within its overall funding policy, in conformance with the insurance funding risk appetite statement, which was approved by the Board of Directors in December 2019.

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;
- Conducting periodic asset-liability studies including consideration of the impacts of economic and other risk factors on the funding position and desired level of margin funding;

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

- Assessing actual investment performance relative to the expectations of the WSIB's Strategic Investment Plan;
- Executing the current Strategic Investment Plan to ensure strong investment governance, effective diversification of assets, efficient cost structure and rigorous risk management of investment assets;
- Monitoring for potential legislative changes that could impact benefit liabilities or costs.

The COVID-19 pandemic and its impact are ongoing and uncertain. While equity markets are slowly showing signs of recovery following the downturn experienced in the first quarter during the commencement of the pandemic, further recovery could be curtailed by political and economic tensions between Canada, the US and China. Also, the current US political landscape continues to remain contentious with associated impacts on global trading partners such as Canada. The second wave of COVID-19, the extent and impact of which are being closely monitored as it unfolds, may also moderate investment returns going forward. A severe second wave or additional waves of the pandemic could lead to additional economic shutdowns in the fourth quarter and 2021, which would be more damaging to businesses, making premium recoverability and the collectability of the deferred and future premiums a concern for WSIB. 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 Third 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 2019 Annual Report.

Sufficiency Ratio Statement
September 30, 2020
(millions of Canadian dollars)

Sufficiency Ratio Statement

	Note(s)	Sep. 30 2020	Dec. 31 2019
Total assets under IFRS	2,4	39,840	40,536
Add (Less): Asset adjustment	2	283	(1,686)
Less: Sufficiency Ratio non-controlling interests	2	(3,413)	(3,347)
Sufficiency Ratio assets		36,710	35,503
Sufficiency Ratio liabilities	3	31,493	31,234
Sufficiency Ratio (assets divided by liabilities)		**116.6%**	**113.7%**

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

Notes to Sufficiency Ratio Statement
September 30, 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 Q3 2020 unaudited condensed interim consolidated financial statements of the WSIB prepared in accordance with International Financial Reporting Standards ("IFRS") have been adjusted as required by the Sufficiency Regulation.

COVID-19 presents additional measurement uncertainty in the key unobservable inputs used in assessing the fair value of certain financial instruments and investment properties. 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 WSIB is required to assess if an investment in an associate or joint venture is impaired and impaired losses are incurred 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 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, 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. Employers participating in the financial relief package are required to report deferred premiums by October 31, 2020 with repayment of these amounts beginning in January 2021. Regular monthly and quarterly reporting and payment schedules resumed in September 2020 for all employers. As a result of employers electing to defer premium reporting and payments for a portion of the reporting period, there is additional uncertainty around estimates and assumptions used in the recognition of premium revenues. Furthermore, 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. Critical assumptions used in the recognition of premium revenues and an allowance for doubtful accounts include the employment rate, average wage, and nominal GDP growth rate as it applies to Ontario's economic outlook as well as the WSIB's current and historical cash collection experience.

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2. Sufficiency Ratio assets

Assets used in the Sufficiency Ratio calculation that 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 the expected net long-term return objective 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 return volatility and is known as the asset adjustment.

As at September 30, 2020, the Sufficiency Ratio assets reflected an asset adjustment loss of $283 (December 31, 2019 – gain of $1,686) representing the unrecognized investment returns lower than the expected long-term return objective, net of investment expenses.

The development of the asset adjustment is detailed as follows:

	Dec.31 2016	**Dec.31 2017**	**Dec.31 2018**	**Dec.31 2019**	**Sep.30 2020**
Fair value of invested assets	29,366	33,996	34,872	38,959	37,257
Add (Less): Cash transfers in last month of period	(36)	(44)	(33)	8	13
Adjusted fair value of invested assets[1]	29,330	33,952	34,839	38,967	37,270
Less: Invested assets at expected rate of return[2]	29,070	32,200	36,807	36,324	39,112
Investment returns in excess of (lower than) expectations[3], gain (loss)	260	1,752	(1,968)	2,643	(1,842)
Add (Less): Unrecognized investment returns at prior period end	981	779	1,720	(423)	1,686
Total unrecognized investment returns	**1,241**	**2,531**	**(248)**	**2,220**	**(156)**
Amount to be recognized from:					
2020 investment loss	-	-	-	-	(276)
2019 investment gain	-	-	-	528	396
2018 investment loss	-	-	(393)	(394)	(295)
2017 investment gain	-	350	351	351	263
2016 investment gain	52	52	52	52	39
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 period**	**462**	**811**	**175**	**534**	**127**
Total unrecognized investment returns at end of period[4]	**779**	**1,720**	**(423)**	**1,686**	**(283)**

1. Represents the fair value of invested assets at the end of the period, less the last month's cash contributions (withdrawals), assuming the cash was contributed (withdrawn) at the end of the month.
2. The expected fair value of invested assets is calculated based on an expectation of earning the net long-term return objective on the ending total invested assets balance as of the last reporting period and cash transfers during the period. The net long-term return objective is reviewed annually and has been 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 net long-term return objective.

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4. Unrecognized investment returns less recognized investment returns in the current period.

The amount of unrecognized investment returns to be recognized in future years is as follows:

		Investment returns to be recognized in future years:				
Year earned	**Total unrecognized returns as at September 30, 2020**	**Remainder of 2020**	**2021**	**2022**	**2023**	**2024**
2020	(1,566)	92	369	368	369	368
2019	1,719	(133)	(529)	(528)	(529)	-
2018	(886)	99	393	394	-	-
2017	437	(87)	(350)	-	-	-
2016	13	(13)	-	-	-	-
	(283)	**(42)**	**(117)**	**234**	**(160)**	**368**

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

	Sep. 30 2020	**Dec. 31 2019**
Fair value of non-controlling interests	3,215	3,431
Add (Less): Asset adjustment	198	(84)
Sufficiency Ratio non-controlling interests	**3,413**	**3,347**

3. Sufficiency Ratio liabilities

The Sufficiency Ratio liabilities were prepared under a going concern basis and were calculated as follows:

- Benefit liabilities were determined in accordance with IFRS. Liabilities were calculated by an actuarial valuation with a discount rate of 4.75% (December 31, 2019 – 4.75%) per annum, as described in note 19 of the WSIB's 2019 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 5.10% (December 31, 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 2.75% (December 31, 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 $2,025 (December 31, 2019 – $1,283).
    - All other liabilities were determined in accordance with IFRS.

Notes to Sufficiency Ratio Statement
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(millions of Canadian dollars)

- On July 1, 2020, the WSIB Employees' Pension Plan (the "EPP") was amended to convert to a jointly sponsored pension plan ("JSPP"). The JSPP 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 JSPP. As a result of this conversion, employee contribution requirements will gradually increase until both the WSIB and employees are each contributing 50% of normal costs. At that point, 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.

The Sufficiency Ratio liabilities are $31,493 (December 31, 2019 – $31,234), which includes the adjustment of $2,025 (December 31, 2019 – $1,283). Additional details of the breakdown of the liabilities are shown in note 4.

Notes to Sufficiency Ratio Statement
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4. Reconciliation of the Sufficiency Ratio assets and liabilities to the consolidated financial statements prepared in accordance with IFRS

A reconciliation of the assets and liabilities used for the calculation of the Sufficiency Ratio to those under IFRS as at September 30, 2020 is provided below. The unaudited condensed interim consolidated statements of financial position presented on an IFRS basis are from the WSIB's unaudited condensed interim consolidated financial statements. Explanatory notes follow the reconciliation below.

	September 30, 2020			December 31, 2019		
	IFRS Basis	**Adjust-ments**	**Sufficiency Ratio Basis**	**IFRS Basis**	**Adjust-ments**	**Sufficiency Ratio Basis**
Assets						
Cash and cash equivalents	5,160	-	5,160	3,408	-	3,408
Receivables and other assets	1,790	-	1,790	1,297	-	1,297
Investments	32,547	283[1]	32,830	35,475	(1,686)[1]	33,789
Property, equipment and intangible assets	343	-	343	356	-	356
Total assets	**39,840**	**283**	**40,123**	**40,536**	**(1,686)**	**38,850**
Liabilities						
Payables and other liabilities	1,389	-	1,389	1,163	-	1,163
Derivative liabilities	304	-	304	72	-	72
Long-term debt and lease liabilities	177	-	177	201	-	201
Loss of Retirement Income Fund liability	1,937	-	1,937	2,000	-	2,000
Employee benefit plans liability	2,564	(2,025)[2]	539	1,971	(1,283)[2]	688
Benefit liabilities	27,147	-	27,147	27,110	-	27,110
Total liabilities	**33,518**	**(2,025)**	**31,493**	**32,517**	**(1,283)**	**31,234**
Net assets						
Reserves	3,733	2,110	5,843	4,676	(319)	4,357
Accumulated other comprehensive loss	(626)	-	(626)	(88)	-	(88)
Net assets attributable to WSIB stakeholders	**3,107**	**2,110**	**5,217**	**4,588**	**(319)**	**4,269**
Non-controlling interests	3,215	198[1]	3,413	3,431	(84)[1]	3,347
Total net assets	**6,322**	**2,308**	**8,630**	**8,019**	**(403)**	**7,616**
Total liabilities and net assets	**39,840**	**283**	**40,123**	**40,536**	**(1,686)**	**38,850**
Sufficiency Ratio			**116.6%**			**113.7%**

1. Reflects the asset adjustment of our total assets shown on our unaudited condensed interim consolidated statements of financial position at the net long-term annual return objective of 5.00% (December 31, 2019 – 4.75%), resulting in an increase of $283 (December 31, 2019 – decrease of $1,686), which includes the interests in those assets held by third parties (non-controlling interests) of $198 (December 31, 2019 – decrease of $84).

2. Reflects the use of a going concern discount rate of 5.10% (December 31, 2019 – 5.10%). For the purposes of the unaudited condensed interim consolidated financial statements, an accounting weighted average discount rate of 2.75% was used as at September 30, 2020 (December 31, 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
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5. Subsequent event

Credit facility

The WSIB has entered into a revolving line of credit facility in the amount of $900 million with the Ontario Financing Authority ("OFA") as of October 30, 2020. The purpose of the credit facility is to support the Employer Financial Relief Package, which allowed employers to defer premium payments due between March and August 31, 2020 with repayment to begin on January 1, 2021 and be over a six-month period. The OFA and the WSIB are related parties. The credit facility has a variable interest rate, the Three Month Ontario Treasury Bill Rate plus 3.2 basis points, with a 14-month term. The credit facility is intended to provide the WSIB with additional flexibility to manage uncertainties due to COVID-19 and its potential impacts on premium revenues, liquidity, and the investment portfolio.

Canadian Public Equity Pooled Fund ("CPE Pool")

On November 2, 2020, IMCO launched the CPE Pool as part of IMCO's Pooled Asset Management strategy which enables the WSIB and other public entities to "pool" the management of their investments. This pooling strategy creates a sufficiently large asset pool which will broaden access to other asset classes and gain more diversification. The WSIB participated in the CPE pool with other public entities transferring over $1.2 billion of assets comprised mainly of Canadian public equities, into the pool. The WSIB is still assessing the impact of the transfer but it is expected that $187 million of assets will be deconsolidated with a corresponding decrease in non-controlling interest.