2021 Economic Statement

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Message from Chair and President and CEO

On behalf of the Board of Directors of Ontario's Workplace Safety and Insurance Board, we are pleased to present the 2021 Economic Statement.

The 2021 Economic Statement provides an overview of our operational results, financial performance and service improvements, over the past year. The WSIB's funding remained over 100 per cent on a Sufficiency Ratio basis for the third year in a row, and closed out the second quarter of 2021 with a Sufficiency Ratio of 119.5 per cent. This level of funding provides a high degree of assurance that we can maintain 100 per cent funding on a sustainable basis.

A number of actions are currently being considered that could affect the WSIB financially in 2022. These include the ongoing transition to a new rate-setting model and adjustments to the legislated maximum insurable earnings calculation. Additionally, as our Sufficiency Ratio approaches 120 per cent, we can anticipate future periodic distributions of surplus funding, and we are developing our approach to such future distributions.

This past year we continued to adapt to the challenges presented by the COVID-19 pandemic and to find new ways to provide timely support to people with work related injury or illness, and to businesses experiencing financial difficulties.

Our strong financial position helped us provide financial support to businesses impacted by the pandemic through our financial relief package and by introducing a premium rate hold in 2021. Businesses participating in the financial relief package were expected to repay deferred amounts by June 30, 2021, and most repayments have been received. We will continue to work with those requiring further support.

In 2022 we will resume the transition approach to our rate-setting model, following this past year's rate hold. This means that businesses eligible for a reduction will see decreases to their premium rate and there will be lower yearly maximums on increases until our new rate-setting policies are fully in effect.

We would like to thank all WSIB team members, our Board, system partners and Ontario businesses for their ongoing support and effort during these unprecedented times.

Elizabeth Witmer
Chair, WSIB

Tom Bell
President and CEO, WSIB

Highlights

Stability through the pandemic. Our financial position continues to be strong despite the severe global economic downturn in spring 2020. We supported businesses by allowing them to defer premiums and charged no interest or penalties on deferments until mid-2021. We have also provided benefits for the nearly 27,000 work-related COVID-19 claims allowed to date which was uncharted territory for us.

As the pandemic continued into its second year, we were 119.5 per cent funded on a Sufficiency Ratio basis at the end of Q2 2021. Our surplus position means that we are well prepared for disruptions and that benefits for injured or ill people remain available and secure.

Helping business recovery with a lower average premium rate. We are lowering the average premium rate for businesses by 5.1 per cent for 2022, from $1.37 to $1.30, which is **half of what it was six years ago** in 2016 ($2.59). Our strong financial position means that we can eliminate margins, resulting in lower premium rates, and still maintain a high level of confidence that funding will be adequate.

Full funding expected to be maintained. Under a base scenario that assumes a return to normal economic growth, investment returns consistent with our long-term investment rate of return and no increases to the $1.30 average premium rate, our Sufficiency Ratio is anticipated to remain above 100 per cent for the foreseeable future. Even under less favourable conditions, in two out of the three adverse scenarios we tested, we would continue to be fully funded.

The WSIB is actively monitoring a number of potential legislative or regulatory changes which could have material financial impacts that were not included as part of the scenarios we tested. The most significant of these actions could be determination of how and when to redistribute some of the surplus funds to Ontario businesses. Other potential actions, including adjustments to the transition to the new rate-setting model or how the maximum insurable earnings amount for 2022 is calculated could also have an impact.

Being ready for what comes next. We added substantially to our online services in 2020, and we've continued to expand online and digital options in 2021. We are making it easier to work with us, wherever our customers are working. We also continue to make progress on developing the digital functionality required to modernize our claims management processes.

Developments in 2021

COVID-19 pandemic

As we moved from 2020 into 2021, we developed a better understanding of the repercussions of the COVID-19 pandemic for the people and businesses of Ontario and the WSIB. COVID-19 cases and WSIB claim counts were both far higher in the second and third waves of the pandemic than they had been in wave one. As higher vaccination rates helped bring case counts down throughout the summer, we are looking ahead to plan for new realities and expectations for post-pandemic Ontario.

The impacts of COVID-19 are described below.

Claim volume and types

The pandemic affected the number and types of claims that we registered in 2020 and year-to-date in 2021. Schedule 1 claim volume was 20 per cent lower in 2020 than in 2019 because of reduced business activity due to pandemic-related restrictions. However, lost-time claim volume decreased by less than 3 per cent while no-lost-time claim volume was 28 per cent lower. The difference stems from work-related COVID-19 claims, which are usually lost-time, and has meant that the proportion of our claims that are lost-time has been higher than before the pandemic.

In the first half of 2021 registered claim volume was 23 per cent higher than in 2020, but still 8 per cent below the 2019 pre-pandemic level. We registered over 16,000 COVID-19 claims year-to-date in 2021, nearly one-fifth (19 per cent) more than in all of 2020, and non-COVID-19 claim volume also remained high compared to earlier in the pandemic.

We have been able to successfully manage regular claims and COVID-19 claims received by adjusting our resources and priorities as necessary to ensure timely services and benefits for those we serve.

Impacts to revenue

Workplace shutdowns in 2020 led to a reduction in premium revenue. Insurable earnings were 3.6 per cent lower in 2020 than in 2019, the first decrease since 2009. Reduced insurable earnings, plus a premium rate that was 17 per cent lower in 2020 than in 2019 meant that 2020 premium revenue was 19 per cent below what it was in 2019.

Year-to-date in 2021, economic recovery has largely continued without a return to the widespread shutdown experienced during the first wave of the pandemic between March and August 2020. Year-to-date to the end of June, insurable earnings were 3.1 per cent higher than in 2019 and 11 per cent higher than in 2020.

The lead-up to the pandemic and the months that followed created volatility in markets and in our investment returns. However, our net returns were positive in 2020 (4.2 per cent) and as of

June year-to-date in 2021 (3.9 per cent). Long-term performance has remained within target levels. As of the end of Q2, net 10-year returns were 7.1 per cent and net 15-year returns were 6.1 per cent, compared to our target of 5 per cent. This investment revenue, and an appropriate level of premiums, provide confidence that we can maintain a Sufficiency Ratio greater than 100 per cent.

Repayment of deferred premiums

Businesses were given the option to defer premium reporting and payment from March to September 2020 to help reduce the financial burden of COVID-19. Businesses were not asked to start making repayment installments on deferred amounts until January 2021, and no interest accrued and no penalties were charged until July 2021.

Approximately 190,000 businesses participated at the program's peak in July 2020. By January 2021, 102,000 businesses owed approximately $256 million in deferred premiums and as of the end of June, the end of the standard repayment period, this amount was $100 million. Of the remaining amount, $44 million is estimated to be highly likely to be repaid. We will continue to work with any businesses experiencing financial hardship who require additional time for repayment moving forward.

Maximum insurable earnings for 2021 and 2022

The WSIB determines an annual maximum for insurable earnings based on the average industrial wage for Ontario. Once an individual's earnings reach the annual maximum, businesses do not need to report the earnings that exceed the maximum as part of their insurable earnings. The higher the maximum, the more businesses with employees earning higher incomes pay in premiums.

In 2020, lower wage jobs were disproportionately affected by the pandemic. With fewer lower wage jobs, the average industrial wage jumped by 7.8 per cent and would have led to an equivalent increase in the maximum insurable earnings amount for 2021. The *Workplace Safety and Insurance Act* was amended to limit the increase in the maximum insurable earnings for 2021 and 2022. As a result, the maximum insurable earnings ceiling for 2021 was set at $97,308, an increase of 2.0 per cent over 2020. The maximum insurable earnings ceiling for 2022 is $100,422, an increase of 3.2 per cent over 2021.

Challenges for return to work

We have assessed the impact of the economic shutdowns in 2020 and 2021 on non-COVID-19 claims and overall there does not seem to have been a significant, direct impact on claim durations. However, sectoral and employer-level differences could still emerge, especially for industries that may take longer to recover, or may never fully recover, from the pandemic.

Addressing a pre-pandemic, multi-year trend of rising claim durations had been our highest priority coming in to 2020 and this continues to be the case. While COVID-19 created some challenges, it did not interfere with our efforts in pursuing this priority.

Re-opening WSIB offices
While our offices remain closed until at least September 2021, return-to-work staff re-entered the field in 2020 and have continued to offer and deliver in-person services where safe to do so. We have also had a small group of staff continue to go into our head office throughout the pandemic to ensure that our IT and other systems have continued to function. We are now ready to implement our plan to return staff to a mix of home and in-office work in accordance with public health guidelines.

Other developments

Improving recovery and return-to-work outcomes
Claim durations, the amount of time those with workplace injuries or illnesses continue to require benefits, are a critical performance measure. They tell us how long it takes us to support people with claims to recover and return to what matters to them. Durations showed strong improvement from 2009 to 2015, followed by a period of deterioration through 2020.

In October 2020, we undertook actions to address the deteriorating results. Our focus has been on stabilizing our operations, while better positioning our staff to deliver our services through the COVID-19 pandemic.

While challenges with our duration results persisted into early 2021, by the end of Q1 we began to see signs of stabilization. And in Q2, our three and six-month durations decreased quarter-over-quarter for the first time since 2015-2016. While the improvements are small and remain fragile, the signs of stabilization in return-to-work outcomes have strengthened and we remain focused on ensuring that improvement continues.

Operational Review (Speer Dykeman Report)
Following the release of the Workplace Safety and Insurance Board Operational Review Report in 2020, we have been coordinating the phased implementation of the recommendations that are within our authority to execute. Currently, the Government of Ontario has two regulatory proposals underway to determine an approach for surplus distribution and to expand coverage in residential/development support worker industries. We continue to work with the government and provide support on these items.

Occupational Disease Strategy (Demers Report)
We have approved an Occupational Disease Strategy which aims to use the recommendations outlined in the Workplace Safety and Insurance Board Value for Money Audit Report: Occupational Disease and Survivor Benefit Program and the Using Scientific Evidence and Principles to Help Determine the Work-Relatedness of Cancer review, to achieve a more responsive and sustainable approach to occupational disease policy and decision-making at the WSIB.

To establish the foundation of the Strategy, three key short-term activities have been identified:

1. Creating an overarching occupational disease policy framework to guide future occupational disease scheduling and policy development.
2. Developing a research strategy to facilitate the timely collection of up-to-date scientific evidence to support evidence-based decision-making.
3. Forming an independent scientific advisory panel to provide the WSIB with expert advice on occupational disease issues.

We also continue to engage with the Ministry of Labour, Training and Skills Development to implement responses to the recommendations.

Health and Safety Excellence program

Our Health and Safety Excellence program was adapted to help businesses stay pandemic ready and safe following the start of the COVID-19 pandemic. Five of the program's 36 topics address immediate pandemic-related priorities to help businesses safely resume operations and remain open.

As of June 2021, there were 2,289 businesses participating in the Health and Safety Excellence program. The total amount of rebates issued in Q2 2021, over $3.2 million to over 200 businesses, was the highest quarterly amount since the program began in 2019. These businesses are being rewarded for strengthening their health and safety programs, which has the potential to help reduce injuries and illnesses.

Expansion of online services

The need for digital services has been greater than ever in order to meet the expectations of customers during the pandemic. In January 2021, we added a direct deposit sign-up feature to our online services for people with claims. In the first two months of this new option, more than 4,000 people signed up online for direct deposit, helping to ensure that their benefit payments are as timely as possible.

Our performance

Financial performance

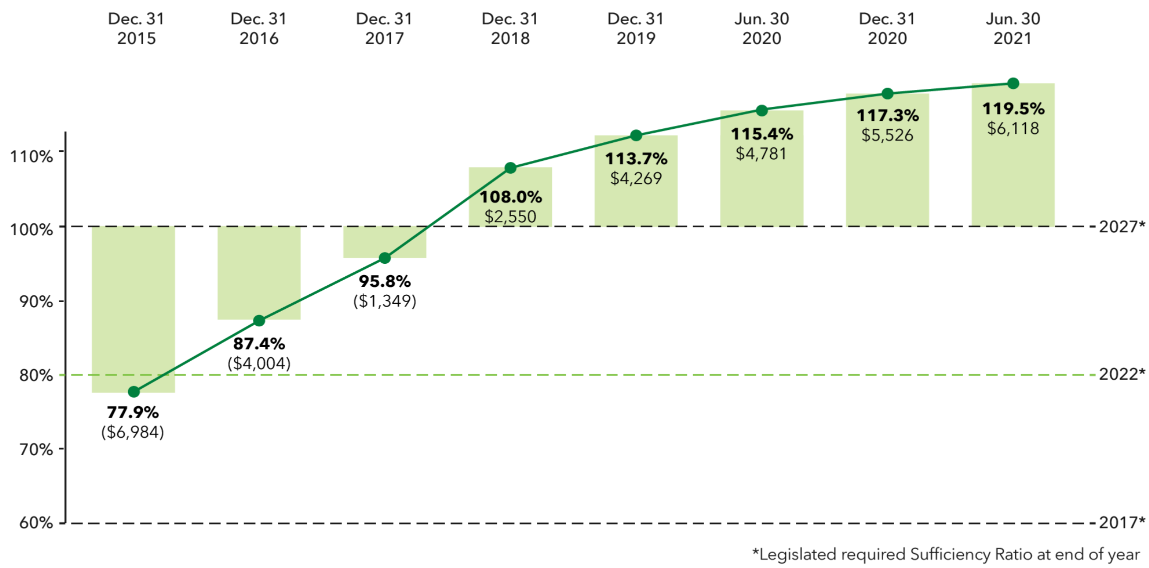
Our funding position remains strong in 2021 despite the ongoing challenge of the COVID-19 pandemic.

- The WSIB held net assets of $6.1 billion on a sufficiency basis as of the end of June 2021, and the Sufficiency Ratio reached 119.5 per cent. It is now within the target range of 115 to 125 per cent recommended in the Operational Review of the WSIB released in 2020. So far in 2021[1], net assets increased by $0.6 billion while the Sufficiency Ratio increased by 2.2 percentage points.
- Our insurable earnings surpassed the pre-pandemic level as of June year-to-date and they were 11 per cent higher than in 2020. With insurable earnings back on track, our premium revenue of $1,604 million year-to-date exceeded budget by 2 per cent. Our current assumption for full year 2021 is a 6.7 per cent increase in insurable earnings compared to 2020 given the economic growth that is widely anticipated for Ontario in the second half of 2021.
- The WSIB's investment portfolio had positive net returns of 4.2 per cent in 2020 and 3.9 per cent year-to-date in 2021. Volatility during both years meant that losses were experienced at times in both years, but these were fully recovered. Year-to-date net investment income was $1,435 million.
- Claim payments of $1,292 million were 1 per cent over budget year-to-date. They were also 3 per cent higher than in 2020. Health care costs were lower in 2020 due to lower claim volume from more limited economic activity because of COVID-19.
- Year-to-date, administrative expenses of $521 million remained within budget. They were 8 per cent higher than in 2020, as expected, primarily due to higher employee benefit plan expenses, depreciation and amortization and equipment and maintenance costs.

We include discussion of the significant risk factors that affect the operations of the WSIB in the Management's Discussion and Analysis section of the 2020 Annual Report. The WSIB believes the significant risks outlined in this report have not changed materially.

[1] 2021 performance is Q2 year-to-date, unless otherwise specified

Figure 1: Net assets on a Sufficiency Ratio basis ($M) and Sufficiency Ratios
Both net assets and the Sufficiency Ratio have continued to improve in 2021.



Operational performance

Although 2018 and 2019 were challenging years for the WSIB from an operational performance perspective, we have made efforts since 2020 to stabilize our performance. Now, in 2021, our efforts have resulted in early signs of improvement in recovery and return-to-work outcomes, including durations.

- Claim durations, the time that injured or ill people continue to require benefits, increased in 2020 as part of a trend that pre-dated the pandemic. In 2021, the increase in short-term durations first slowed (in Q1) and then reversed (in Q2) for the first time since 2015-2016. Three-month duration improved to 15.7 per cent from 16.0 per cent at the end of 2020, while six-month duration improved from 10.4 to 10.1 per cent. Longer-term duration results are slower to register changes and have mostly remained stable in 2021. Duration results exclude COVID-19 claims, which tend to have relatively short durations.
- 86 per cent of those injured or ill at work returned to employment within 12 months with no wage loss year-to-date in 2021 (Schedule 1). This percentage was lower than in 2020 (88 per cent) and 2019 (89 per cent). The decreasing trend began before the pandemic and the direct influence of COVID-19 on this measure at an aggregate level was found to be limited, though we recognize that individual workplaces may have been affected. If durations continue to decline we expect to see improvement in this result too, since the measures are related.
- Eligibility decision making and payments both continued to be timely even as WSIB staff continued to work remotely. In 2021, 95 per cent of eligibility decisions were made within 10 business days, more than the 93 per cent target, despite the high number of COVID-19 claims, which must be decided on a case-by-case basis. 71 per cent of claims were paid within 15 days of us first being notified of the claim, above the target of 65 per cent.

- The number of claims locked in remains within target in 2021. So far this year, 459 claims have been locked in which is below the target of 620 and below the 2020 result of 549.

Funding status and path

Each year since our first Economic Statement in 2015, we have shared a financial trajectory to show our estimated timing for eliminating the unfunded liability, as required by legislation. In 2020, Ontario experienced the type of economic shock that we hoped to be prepared for by eliminating the unfunded liability and maintaining a surplus. Coming into the pandemic in a strong financial position enabled us to maintain full funding. We remain well positioned to meet the legislative requirement to be fully funded in 2027. This means that people in Ontario can be assured that benefits will be there for those who need them now and in the future, that the system is equipped for economic downturns and that businesses can rely on stable premium rates.

We have calculated estimated funding levels under different scenarios: a *base* scenario and three *adverse* scenarios. The scenarios differ in their assumptions about insurable earnings, which form the basis for our premium revenue, about the returns on our investment portfolio and about the cost of the new claims coming in to the WSIB.

Under all scenarios the average premium rate for 2022 onwards is assumed to be $1.30 per $100 of insurable earnings, 5.1 per cent below the 2021 average premium. Also, for all scenarios we assume that no new increases to benefits are legislated, that there is no distribution of surplus to businesses and that the transition to our rate-setting model continues to be implemented as planned. Should the government make legislative or regulatory amendments in these areas, funding levels and premium rates would potentially be affected.

Base scenario: With the effects of the COVID-19 pandemic diminishing and economic recovery well underway in Ontario, our base scenario assumes accelerated economic growth in 2021 and 2022, returning to normal economic growth (assumed to be 3.0 per cent) in 2025 and investment returns consistent with our long-term rate of return (5 per cent) as of the end of 2021. Under this scenario, we assume no new shocks or decreases, such as those experienced at the start of the pandemic in 2020, will take place over the time horizon shown.

Adverse scenarios: This year, we tested three adverse scenarios of increasing severity:

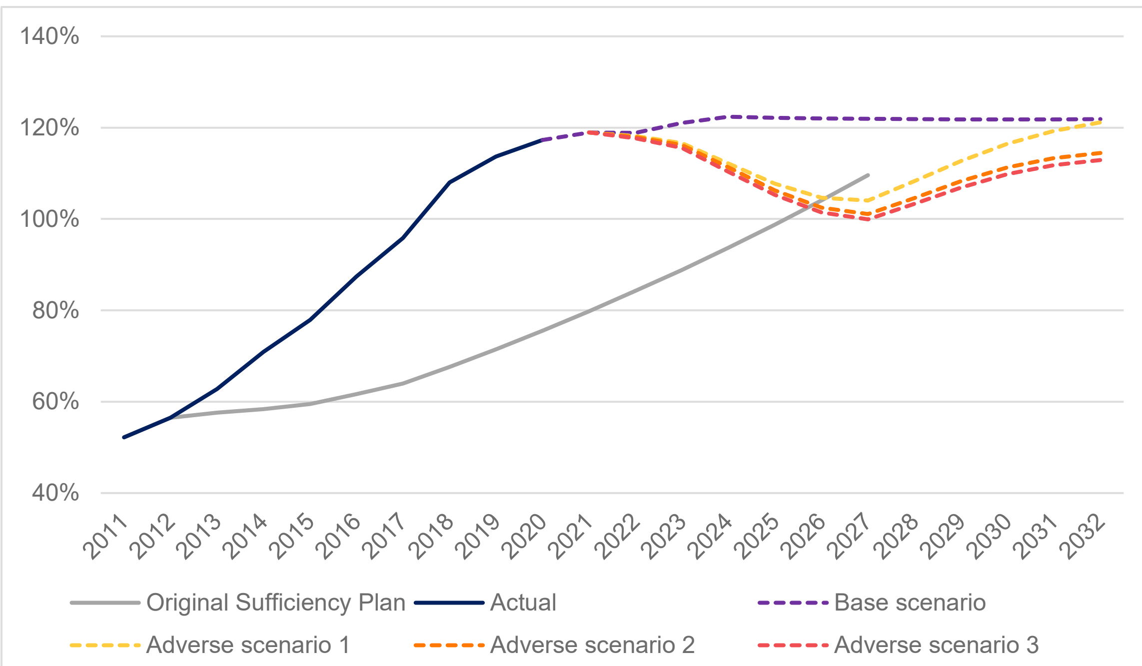
- In the first adverse scenario, we assume investment losses in 2022 (-1 per cent) and again in 2023 (-15 per cent) followed by a recovery period where returns are higher than our long-term rate of 5 per cent and, finally, returns at our long-term rate. Investment returns are an important source of revenue for benefit payments and for maintaining our funding level. All other assumptions are the same as in the base scenario.

- In the second adverse scenario, in addition to the investment losses described above, our insurable earnings also decrease, by 2.5 per cent in 2022. They then hold flat in 2023, before gradually returning to normal growth. As a result of lower insurable earnings, our premium revenue would be reduced.
- In the third scenario, in addition to the investment losses and decrease in insurable earnings, we also experience a 10.7 per cent increase in the cost of our claims in 2022, followed by a gradual return to the base scenario level.

These adverse situations could arise from economic recession triggered by new waves of the COVID-19 pandemic, the emergence and spread of vaccine-resistant variants of the virus, ecological/natural disasters, trade conflict or a wide range of other possible causes.

Original Sufficiency Plan: Forecast from our first Sufficiency Plan in 2013, for historical context.

Figure 2: Sufficiency Ratio projections



Under the base scenario, as shown in the chart above, we continue to be fully funded in 2021, in 2027, when we are legislatively required to be at least 100 per cent funded, and for the remainder of the forecast horizon. Our Sufficiency Ratio rises slightly in the coming years and then remains stable at approximately 122 per cent.

Under the adverse scenarios, again we continue to be fully funded, with the exception of 2027 under the most severe scenario (adverse scenario 3). In adverse scenario 3, the Sufficiency Ratio reduces to 99.9 per cent which would be marginally lower than our legislative requirements for 2027. This adverse scenario is considered to be unlikely, but it is shared to give a sense of the risks under these conditions. The first two adverse scenarios allow us to meet our legislative obligation, with a limited margin. Both of these two trajectories reach their lowest point in 2027, at Sufficiency Ratios of 104.0 and 101.1 per cent, respectively. Premium rates are not raised under any of the adverse scenarios.

We base the estimated funding paths shown above on the assumptions in the table below.

Figure 3: Assumptions for estimated trajectories

Revenues	**Notes*** 1	**2013 original Sufficiency Plan**	**2021 base scenario**	**2021 adverse scenario 1**	**2021 adverse scenario 2**	**2021 adverse scenario 3**
Average premium rate		$2.46	$1.37 in 2021, $1.30 in 2022 and thereafter			
Investment return, net		3.5% to 2017 5.5% thereafter	5.0%	5.0% in 2021, -1% in 2022, -15% in 2023, 10.4% over the next six years, 5.0% thereafter		
Insurable earnings		3.0% growth	6.7% growth in 2021, 6.6% growth in 2022, 3.5% in 2023, 3.1% in 2024, and 3.0% thereafter		6.7% growth in 2021, -2.5% in 2022, 0% in 2023, return to normal (3.0%) in six years	
Claim costs	2					
New claims cost		$1.10	$0.77 in 2021, $0.75 thereafter			$0.77 in 2021, $0.83 in 2022, return to normal ($0.75) in five years
Health care escalation		4.5%	4.0%			
Claim duration		No improvement	Return-to-work assumption updated at 2020 year-end			
Administration	3	Stable at $800 million then growth at 2% thereafter	Stable at $1.1 billion per year for next 5 years, then growth at 1% over the following 5 years, 2% thereafter, excluding depreciation			

* We provide more detail on these assumptions, and how they have changed compared to the original Sufficiency Plan in the Appendix.

Premium rate outlook

For 2022, the average premium rate will be $1.30, which is 5.1 per cent lower than in 2021 and 2020. We continue to be in a surplus position, despite the challenges of the pandemic. That position, together with our expectations regarding future economic recovery, have enabled us to reduce margins resulting in a lower premium rate. The 2022 rates for each industry class are provided in the table below.

Figure 4: 2022 premium rates by class

Class	Class description	2022 premium rate
A	Agriculture	2.46
B	Mining, quarrying and oil and gas extraction	2.38
C	Utilities	0.69
D1	Educational services	0.33
D2	Public administration	3.51
D3	Hospitals	0.83
E1	Food, textiles and related manufacturing	1.25
E2	Non-metallic and mineral manufacturing	2.11
E3	Printing, petroleum and chemical manufacturing	0.99
E4	Metal, transportation equipment and furniture manufacturing	1.80
E5	Machinery, electrical equipment and miscellaneous manufacturing	1.07
E6	Computer and electronic manufacturing	0.24
F1	Rail, water, truck transportation and postal service	4.03
F2	Air, transit, ground passenger, recreational and pipeline transportation, courier services and warehousing	1.77
G1	Residential building construction	2.63
G2	Infrastructure construction	2.10
G3	Foundation, structure and building exterior construction	4.11
G4	Building equipment construction	1.70
G5	Specialty trades construction	2.36

G6	Non-residential building construction	1.79
H1	Petroleum, food, motor vehicle and miscellaneous wholesale	1.75
H2	Personal and household goods, building materials and machinery wholesale	0.74
I1	Motor vehicles, building materials and food and beverage retail	1.27
I2	Furniture, home furnishings, clothing and clothing accessories retail	0.80
I3	Electronics, appliances and health and personal care retail	0.34
I4	Specialized retail and department stores	0.94
J	Information and culture	0.39
K	Finance, management and leasing	0.91
L	Professional, scientific and technical	0.22
M	Administration, services to buildings, dwellings and open spaces	1.67
N1	Ambulatory health care	1.37
N2	Nursing and residential care facilities	1.98
N3	Social assistance	1.29
O	Leisure and hospitality	0.94
P	Other services	1.40

In 2022, we will also resume the transition to our new rate-setting model that began in 2020. The transition was put on hold for 2021 when premium rates were held at 2020 levels to provide rate stability for businesses dealing with the COVID-19 pandemic. Under the new model, businesses with positive claims experience from past years may move to a lower risk band and pay a premium rate that is lower than their class rate. Businesses with poor past claims experience may move up to a higher risk band and pay a higher rate than their class. In 2022, decreases in rates will be applied for the businesses that have earned them. Increases will also be applied, but with a maximum increase of one risk band.

COVID-19 claims and the costs associated with them continue to be allocated across all Schedule 1 businesses and are not counted in the claims experience of individual businesses. This ensures that premium rates for all businesses (including essential businesses like health care and agriculture) do not reflect their individual COVID-19 claims experience.

The WSIB's impact

By working with our partners to prevent workplace injuries and illnesses from occurring in the first place, and by supporting safe and timely return to work when they do, we are improving the lives of people across the province.

Providing services, paid for by premiums, in a financially responsible and accountable way is another important source of the public value we provide to Ontarians. The more efficient we are, the better we can use our resources directly to help those with workplace injuries and illnesses recover and return to work.

The reductions in the average premium rate that have become possible as we have moved from an unfunded liability to a surplus position mean that the rate for 2022 will be half what it was in 2016. This decrease means that money that would have gone towards funding the workers' compensation system now remains in the economy. The decrease compared to the 2021 average rate alone (-$0.07 per $100 of insurable earnings) means that approximately $150 million more will remain in the economy in 2022. These funds are needed to help businesses in their continued recovery.

Ontario's workers' compensation system has remained strong and stable throughout the pandemic and benefits will continue to be there for those who need them. We are well positioned to weather future downturns or crises.

About the WSIB

When an injury or illness happens on the job, we move quickly to provide wage-loss benefits, medical coverage and help getting back to work. We cover 5.3 million people in approximately 325,000 workplaces across Ontario. We also help promote health and safety in the workplace with a goal of one day having zero work-related injuries or illnesses. The WSIB is funded by employer premiums.

The WSIB:

- invests more than $30 billion in reserve to support our $30 billion in liabilities, to pay benefits for injuries that have occurred and require benefits and support in the future
- registered over 200,000 claims in 2020
- paid a total of nearly $3 billion in benefits to people injured at work or who experienced an occupational illness in 2020
- plays an active role in promoting workplace health and safety and in supporting and working with the Ministry of Labour, Training and Skills Development and the Chief Prevention Officer.

Appendix: Sufficiency plan update

The *Workplace Safety and Insurance Act, 1997 (Ontario)* (the “WSIA” or the “Act”) requires the WSIB maintain the Insurance Fund with an amount in the fund that is sufficient to meet its obligations under the WSIA and to make payments to people injured at work and their families when necessary. The WSIB charges premiums to Ontario businesses from which we pay benefits to injured people.

Regulations that apply to the Sufficiency Ratio and the Sufficiency Plan
Ontario Regulation 141/12, which came into force on January 1, 2013, requires the WSIB to meet prescribed Sufficiency Ratios by the following dates:

- 60 per cent on or before December 31, 2017
- 80 per cent on or before December 31, 2022
- 100 per cent on or before December 31, 2027

Ontario Regulation 141/12, as amended by Ontario Regulation 338/13 came into force on 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. We retrospectively recalculated our Sufficiency Ratio as of January 1, 2013, the date when we first began reporting the Sufficiency Ratio, to reflect the amended methodology.

Sufficiency Ratio calculation methodology
The Ontario Regulations permit the WSIB to value both our assets and liabilities using actuarial valuations that are consistent with accepted practices for going concern valuations. The actuarial valuation of investment assets for the purposes of the Sufficiency Ratio allows the WSIB to amortize investment gains and losses that differ from the long-term expected net rate of return over a five-year period using straight-line amortization, thus moderating the effect of investment market volatility on our financial results. The WSIB currently expects a long-term net rate of return of 5 per cent on investments. Amortizing the investment gains and losses that differ from the long-term expected net rate of return over five years on a straight-line basis is consistent with accepted actuarial practice and mirrors the practices of many large pension plans in Ontario.

The WSIB’s Sufficiency Statement presents the Sufficiency Ratio to stakeholders on a quarterly basis. The Sufficiency Statement provides a reconciliation between the consolidated statement of financial positions prepared in accordance with the International Financial Reporting Standards (IFRS) and the assets and liabilities for Sufficiency Ratio purposes. The detailed basis of measurement for the purposes of the Sufficiency Ratio under the Ontario Regulations is described below.

Assets

For the purposes of the Sufficiency Ratio calculation, the WSIB's assets consist of the total consolidated assets of the WSIB less the interests in those assets of third parties, as represented by the balance of non-controlling interest (including the assets of the WSIB Employee's Pension Plan). The investment assets used in the Sufficiency Ratio calculation are adjusted by investment gains and losses deviating from the WSIB's expected net return on investments. These gains or losses are amortized over a five-year period on a straight-line basis, thereby moderating the effect of market volatility. After five years, the current period's investment gain or loss is fully recognized in the asset value. As of Q2, 2021, assets are also adjusted to exclude funds received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit program.

The current unamortized balance representing the cumulative investment gains above the long-term expected return was $1,275 million at June 30, 2021 (2020 – investment gains of $849 million). This balance will fluctuate depending on the WSIB's actual investment income as compared to expectations of 5 per cent per annum and will be amortized into future income and net assets on a Sufficiency Ratio basis over the remaining amortization period.

Liabilities

The liabilities included in the Sufficiency Ratio are calculated as our total liabilities shown on our consolidated statements of financial position and are adjusted to reflect valuations of the Employee Benefit Plans liabilities on a going concern basis rather than a market basis. Similar to assets, as of Q2, 2021, a net new adjustment is incorporated to exclude funds received from the Government of Ontario for the purposes of administering the COVID-19 Worker Income Protection Benefit Program on behalf of the Government of Ontario.

Based on the WSIB's Sufficiency Ratio methodology under the Ontario Regulations, the Sufficiency Ratio as at June 30, 2021 was 119.5 per cent (117.3 per cent in 2020) corresponding to a funding reserve of $6,118 million (2020 – $5,526 million) on a Sufficiency Ratio basis. The component of premiums collected in the past to help eliminate the unfunded liability and our ongoing positive investment and operational results have resulted in achieving 100 per cent funding ahead of the regulatory requirements.

A reconciliation of the net assets attributable to WSIB stakeholders between the IFRS basis and the sufficiency basis is presented as following:

Figure 5: Reconciliation of the net assets on a Sufficiency Ratio Basis

(millions of Canadian dollars)	**30-Jun 2021**	**31-Mar 2021**	**31-Dec 2020**	**31-Dec 2019**
Net assets attributable to WSIB stakeholders on an IFRS basis	6,001	4,779	4,324	4,588
Add/(Less): adjustments per Sufficiency Regulations:				
Reduction of cash related to WIPB	(198)	-	-	-
Change in valuation of investment portfolio	(1,275)	(392)	(849)	(1,686)
Reduction of payables related to WIPB	198	-	-	-
Change in valuation of employee benefit plans liability	1,350	1,189	2,118	1,283
Change in valuation of investment portfolio attributable to non-controlling interests	42	41	(67)	84
Net assets attributable to WSIB stakeholders on a Sufficiency Ratio basis	6,118	5,617	5,526	4,269
Sufficiency Ratio	**119.5%**	**118.1%**	**117.3%**	**113.7%**

Significant financial risks and mitigation strategies
We include discussion of the significant risk factors that affect the operations of the WSIB in the Management's Discussion and Analysis section of the 2020 Annual Report. The WSIB believes the significant risks outlined in this report have not changed materially.

Notes about assumptions for estimated trajectories (Figure 3)
The WSIB has made the following changes to the significant assumptions for 2021 to reflect experience and our long-term outlook as summarized below.

1. Revenues

   Premium revenue
   - We've assumed the average premium rate of $1.37 per $100 of insurable earnings for 2021 and $1.30 thereafter. This is a significant decrease from the original Sufficiency Plan, which included an average premium rate of $2.46 per $100 of payroll.
   - We've assumed insurable earnings will increase by 6.7 per cent in 2021, followed by 6.6 per cent in 2022, 3.5 per cent growth in 2023, 3.1 per cent growth in 2024 and 3.0 per cent growth in 2025 and thereafter (a combination of wage and employment growth). In the second and third adverse scenarios we project a second shock to the economy in 2022 in which insurable earnings will decrease at 2.5 per cent in 2022

followed by 0 per cent in 2023, then return to normal growth of 3.0 per cent over the next six years.

Investment returns, net

- We've assumed investment income will be 5 per cent in 2022 and thereafter.
- We've assumed that in the adverse scenarios there will be a 1 per cent loss on investments in 2022 followed by a 15 per cent loss in 2023, 10.4 per cent gains over the next six years, and then a 5 per cent positive return thereafter.

2. Claim costs
    - We've assumed that New Claims Costs ("NCC") is $0.75 per $100 of insurable earnings in 2022 and thereafter. This is $0.35 lower than the original Sufficiency Plan due to claims experience in recent years, notwithstanding increases related to the legislative changes for work-related chronic mental stress benefits, posttraumatic stress disorder benefits, indexing of benefits and presumptive cancers for firefighters' benefits. In the third adverse scenario, we project a NCC of $0.83 in 2022 and a return to normal ($0.75) in five years.
    - We've assumed there will be no change in benefit coverage or levels, with the exception of work-related chronic mental stress and posttraumatic stress disorder, noted above reflecting recent legislative amendments.
    - We've assumed that health care costs will grow at 4.0 per cent per year. This is a decrease from the original Sufficiency Plan of 4.5 per cent as our health care cost experience has been favourable and we expect the experience will continue.
    - We've updated duration of claims at 2020 year-end as the actuarial assumption for return to work was updated for recent experience.

3. Administration
    - We've assumed administration and other expenses will increase to approximately $1.1 billion and grow at 1 per cent over the next five years, due to resource-related costs and information technology transformation, and then 2 per cent thereafter.
    - We've assumed CPI will grow by 2.0 per cent annually, excluding depreciation expenses, a change from the original Sufficiency Plan of 2.5 per cent.