Workplace Safety and Insurance Board

First Quarter **2020** Sufficiency Report

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President and CEO's message

The beginning of 2020 was marked by the early spread of the global COVID-19 pandemic, which is dramatically changing how businesses around the world operate, including our own.

The necessary health and safety restrictions to bend the pandemic's curve have unfortunately resulted in economic instability that has impacted Ontario employers significantly. These economic ramifications have also shone a new light on the necessity for our workplace injury and illness insurance system to be fully funded.

The elimination of our historic unfunded liability in 2018 and subsequent disciplined plan to maintain full funding has allowed the WSIB to act quickly to maintain services and benefits for anyone with a work-related injury or illness, and continue to provide support for Ontario businesses through this challenging time.

We have introduced the following measures to support Ontarians during the COVID-19 situation:

- Maintained service levels and ensure that there were no disruptions to benefits or benefit payments
- Transitioned our staff to work from home to keep them safe and help stop the spread of COVID-19
- Kept people informed and updated with information related to COVID-19 claims through all communications channels, including our website
- Offered a $1.9 billion financial relief package to help Ontario businesses, allowing employers to defer premium reporting and payments until August 31, 2020

These are challenging times, but we are here to help support Ontarians as we navigate through this pandemic. Our strong financial management has secured our ability to both continue services and benefits for people who need us and offer financial relief to employers across Ontario. This experience has reinforced our commitment to making Ontario the safest place to work and run a business, and doing so in a fiscally accountable and transparent way.

Thomas Teahen
President and Chief Executive Officer
June 24, 2020
Toronto, Ontario

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 three months ended March 31, 2020 and the effect on our Sufficiency Ratio.

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

	Mar. 31	Dec. 31	Change	
(millions of Canadian dollars)	**2020**	**2019**	**$**	**%**
Sufficiency Ratio assets	35,826	35,503	323	0.9
Sufficiency Ratio liabilities	(31,336)	(31,234)	(102)	(0.3)
Net assets on a Sufficiency Ratio basis	4,490	4,269	221	
Sufficiency Ratio	**114.3%**	**113.7%**		**0.6**

As shown above, as at March 31, 2020, the WSIB had net assets on a Sufficiency Ratio basis of $4,490 million. This means that the Sufficiency Ratio assets exceeded the Sufficiency Ratio liabilities and the WSIB had 114.3% of the assets required to meet its potential future obligations.

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

The Sufficiency Ratio of 114.3% as at March 31, 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*, and amended by the Ministry of Labour, Training and Skills Development, the WSIB submitted the 2019 Economic Statement to the Minister of Labour, Training and Skills Development in September 2019. 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 2019 Economic Statement, the WSIB announced a premium rate decrease for 2020 of 17.0% to the average Schedule 1 rate.

We will continue to manage our investments with the goal of generating returns that meet or exceed the long-term annual investment return objective, while prudently managing the WSIB's operations to ensure premium revenues combined with a prudent expected investment return will cover claim costs, administration and other expenses.

We continually refine our strategy to ensure that the insurance fund can withstand future economic conditions, provide for benefits to people with work-related injuries or illnesses, and provide for premium rate stability for employers. Our Funding Policy requires the Chief Actuary to 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

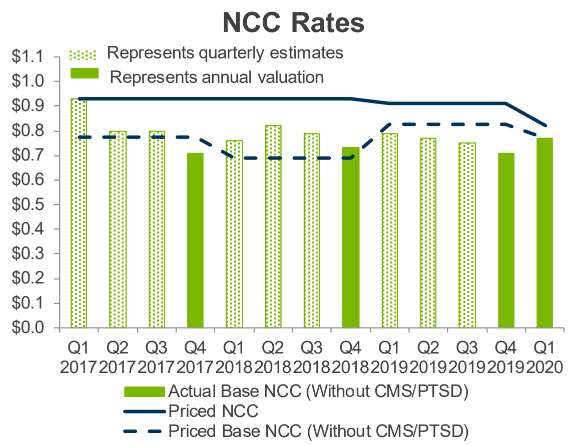
As of Q1 2020, our Sufficiency Ratio is at 114.3%. The risk of underfunding is projected to be low if the benefits remain unchanged, New Claim Costs ("NCC") continue to stabilize, and the Coronavirus ("COVID-19") pandemic is not sustained throughout 2020. In response, the WSIB has undertaken stress-testing 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 the 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. Investment losses have been significant in the first quarter and volatile (total fund returns year to date during the first quarter have fluctuated in a +2% to -14% range) and losses may continue. 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 position is buffered from the impact of significant investment losses as investment losses (and gains) relative to the expected net long-term return are amortized over five years, reducing immediate impact.

To safeguard benefits and offer premium rate stability for employers, the WSIB must ensure that it can withstand future economic shocks. For this reason, the WSIB continues to consult with government reviewers to establish a responsible reserve threshold, above the 100% funding requirement, within its funding policy to offset economic volatility. The progress made toward financial sustainability allowed the WSIB to reduce average premium rates by 29.8% for 2019 and a further 17.0% for 2020, in addition to the cumulative reduction of nearly 10% experienced in the last two years. Furthermore, it has allowed the WSIB to provide an estimated $1.9 billion relief package 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

The WSIB continues to align investment strategy with the funding policy and premium rate approach. While the WSIB's recent focus has been on the determination of the 2020 premium rate and implementation of the new rate framework, a renewed effort to review some of the key parameters that govern funding, pricing and investment decisions within its overall funding policy is required, in alignment with the insurance funding risk appetite statement, which was approved by the Board of Directors in December 2019.

Our mitigation of the risk includes but is not limited to:

- Conducting regular modelling and monitoring of economic scenarios, including stress testing, to better understand the impact of economic risks and to determine the adequacy of our financial assumptions, budget updates, sufficiency planning, and rate setting;
- Determining benefit liabilities based on assumptions that gradually incorporate emerging experience, thus providing a relatively stable basis for pricing and sufficiency measurement;
- Coordinating asset-liability management processes including consideration of the impacts of economic and other risk factors on the funding position and desired level of margin funding;
- Assessing actual investment performance relative to the expectations of the WSIB’s Strategic Investment Plan;
- Executing the current Strategic Investment Plan to ensure strong investment governance, effective diversification of assets, efficient cost structure and rigorous risk management of investment assets;

- Conducting periodic asset-liability studies and implementing a comprehensive investment risk model; and
- Monitoring for potential legislative changes that could impact benefit liabilities or costs.

The COVID-19 pandemic has resulted in unprecedented impacts to economies globally with limited insight on the outlook for economic recovery. This, coupled with geo-political risks, had a material impact on the WSIB's total fund investment return in the first quarter of 2020, and the outlook going forward is uncertain. Despite fiscal and monetary policy measures put in place by governments at all levels, there is a significant risk that the Canadian and global economies could enter into a recession in 2020. Although the WSIB anticipates overall revenue to be materially impacted due to the decline in equity markets and businesses closing their operations, the WSIB remains confident in its ability to maintain sufficient funding to sustain benefits for injured workers. The WSIB will continue to monitor emerging economic risk indicators and other developments in consideration of potential long-term adverse impacts on operations, funding and investments.

While the WSIB monitors a portfolio of significant enterprise risks affecting our business, the insurance funding risk is the risk that is of greatest importance with respect to the WSIB's First 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
March 31, 2020
(millions of Canadian dollars)

Sufficiency Ratio Statement

	Note(s)	Mar. 31 2020	Dec. 31 2019
Total assets under IFRS	2,4	36,885	40,536
Add (Less): Asset adjustment	2	2,313	(1,686)
Less: Sufficiency Ratio non-controlling interests	2	(3,372)	(3,347)
Sufficiency Ratio assets		35,826	35,503
Sufficiency Ratio liabilities	3	31,336	31,234
Sufficiency Ratio (assets divided by liabilities)		**114.3%**	**113.7%**

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

Notes to Sufficiency Ratio Statement
March 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 Q1 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.

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

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

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

As part of the effort to help reduce the financial burden of the COVID-19 situation, the WSIB, in partnership with the Government of Ontario, has offered a financial relief package allowing employers to defer premium reporting and payments until August 31, 2020, with no interest or penalties accruing during the deferral period. As a result of COVID-19, the WSIB may experience challenges in collecting the deferred and future premium revenues from certain employers, with some possibly defaulting on their premium payables. This has introduced additional uncertainty around estimates and assumptions used in the recognition of premium revenues and allowance for doubtful accounts.

2. Sufficiency Ratio 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 the expected net 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 March 31, 2020, the Sufficiency Ratio assets reflected an asset adjustment loss of $2,313 (December 31, 2019 – gain of $1,686) representing the unrecognized investment returns lower than the expected long-term annual rate of return assumption, net of investment expenses.

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

The development of the asset adjustment is detailed as follows:

	Dec.31 2016	**Dec.31 2017**	**Dec.31 2018**	**Dec.31 2019**	**Mar.31 2020**
Fair value of invested assets	29,366	33,996	34,872	38,959	34,918
Add (Less): Cash transfers in last month of period	(36)	(44)	(33)	8	245
Adjusted fair value of invested assets[1]	29,330	33,952	34,839	38,967	35,163
Less: Invested assets at expected rate of return[2]	29,070	32,200	36,807	36,324	39,232
Investment returns in excess of (lower than) expectations[3], gain (loss)	260	1,752	(1,968)	2,643	(4,069)
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**	**(2,383)**
Amount to be recognized from:					
2020 investment loss	-	-	-	-	(204)
2019 investment gain	-	-	-	528	132
2018 investment loss	-	-	(393)	(394)	(98)
2017 investment gain	-	350	351	351	87
2016 investment gain	52	52	52	52	13
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**	**(70)**
Total unrecognized investment returns at end of period[4]	**779**	**1,720**	**(423)**	**1,686**	**(2,313)**

1. Represents the fair value of invested assets at the end of the period, less the last month's cash contributions (withdrawals), assuming the cash was contributed (withdrawn) at the end of the month.
2. The expected fair value of invested assets is calculated based on an expected long-term annual rate of return on the ending total invested assets balance as of the last reporting period and cash transfers during the period. The expected long-term annual rates of return have varied by year and are as follows:

Year	2016	2017	2018	2019	2020
Expected long-term annual rate of return	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 period.

Notes to Sufficiency Ratio Statement
March 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 returns as at March 31, 2020**	**Remainder of 2020**	**2021**	**2022**	**2023**	**2024**
2020	(3,865)	610	814	813	814	814
2019	1,983	(397)	(529)	(528)	(529)	-
2018	(1,083)	296	393	394	-	-
2017	613	(263)	(350)	-	-	-
2016	39	(39)	-	-	-	-
	(2,313)	**207**	**328**	**679**	**285**	**814**

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

	Mar. 31 2020	**Dec. 31 2019**
Fair value of non-controlling interests	3,094	3,431
Add (Less): Asset adjustment	278	(84)
Sufficiency Ratio non-controlling interests	**3,372**	**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 3.75% (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 $1,106 (December 31, 2019 – $1,283).
    - All other liabilities were determined in accordance with IFRS.

The Sufficiency Ratio liabilities are $31,336 (December 31, 2019 – $31,234), which includes the adjustment of $1,106 (December 31, 2019 – $1,283). Additional details of the breakdown of the liabilities are shown in note 4.

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

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

A reconciliation of the assets and liabilities used for the calculation of the Sufficiency Ratio to those under IFRS as at March 31, 2020 is provided below. The unaudited interim consolidated statements of financial position presented on an IFRS basis are from the WSIB's unaudited interim consolidated financial statements. Explanatory notes follow the reconciliation below.

	March 31, 2020			**December 31, 2019**		
	IFRS Basis	**Adjust-ments**	**Sufficiency Ratio Basis**	**IFRS Basis**	**Adjust-ments**	**Sufficiency Ratio Basis**
Assets						
Cash and cash equivalents	3,313	-	3,313	3,408	-	3,408
Receivables and other assets	1,362	-	1,362	1,297	-	1,297
Investments	31,855	2,313[1]	34,168	35,475	(1,686)[1]	33,789
Property, equipment and intangible assets	355	-	355	356	-	356
Total assets	**36,885**	**2,313**	**39,198**	**40,536**	**(1,686)**	**38,850**
Liabilities						
Payables and other liabilities	1,008	-	1,008	1,163	-	1,163
Derivative liabilities	462	-	462	72	-	72
Long-term debt and lease liabilities	180	-	180	201	-	201
Loss of Retirement Income Fund liability	1,835	-	1,835	2,000	-	2,000
Employee benefit plans liability	1,799	(1,106)[2]	693	1,971	(1,283)[2]	688
Benefit liabilities	27,158	-	27,158	27,110	-	27,110
Total liabilities	**32,442**	**(1,106)**	**31,336**	**32,517**	**(1,283)**	**31,234**
Net assets						
Reserves	1,224	3,141	4,365	4,676	(319)	4,357
Accumulated other comprehensive income (loss)	125	-	125	(88)	-	(88)
Net assets attributable to WSIB stakeholders	**1,349**	**3,141**	**4,490**	**4,588**	**(319)**	**4,269**
Non-controlling interests	3,094	278[1]	3,372	3,431	(84)[1]	3,347
Total net assets	**4,443**	**3,419**	**7,862**	**8,019**	**(403)**	**7,616**
Total liabilities and net assets	**36,885**	**2,313**	**39,198**	**40,536**	**(1,686)**	**38,850**
Sufficiency Ratio			**114.3%**			**113.7%**

1. Reflects the asset adjustment of our total assets shown on our unaudited interim consolidated statements of financial position at the expected long-term annual rate of return of 5.00% (December 31, 2019 – 4.75%), resulting in an increase of $2,313 (December 31, 2019 – decrease of $1,686), which includes the interests in those assets held by third parties (non-controlling interests) of $278 (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 interim consolidated financial statements, an accounting weighted average discount rate of 3.75% was used as at March 31, 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.