Workplace Safety and Insurance Board

Second Quarter **2020** Sufficiency Report

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Message from the Chair and President and CEO

The global COVID-19 pandemic has been a dominant force in the first half of 2020, putting an extra strain on people, families and businesses. During this difficult time, the WSIB has not missed a single day of operations. We executed our business continuity plan to ensure people always had access to our services, the benefits they are entitled to and continued to work with us with ease. Our top priority is to support Ontarians and businesses during this time.

While the province transitions from a full shutdown that began in Q1 to a gradual reopening of the economy, workplace health and safety has never been more important – we are focused on helping businesses, their employees and customers to stay safe.

In Q2, our strong financial position, with a funding level of 115.4% on a Sufficiency Ratio basis, has enabled us to continue to provide a high level of service to the people we are here to help and to support business throughout this difficult and uncertain time by doing the following:

- Quickly transitioning the organization to a remote-work model – keeping our employees and the people who rely on us safe, while maintaining service levels
- Ensuring no disruptions to benefits or benefit payments for people who rely on us
- Working with the Government of Ontario to create a financial relief package that allows businesses to defer premium payments estimated to be up to $1.9 billion through August 31, 2020
- Adapting our new Health and Safety Excellence program to help businesses navigate public health guidelines for reopening, workplace health and safety, and to stay pandemic ready

Notably, in June 2020 we launched new online services for people with claims, making it possible for people to view their basic claim information, upload claim documents and send us secure messages, which helps boost people's overall experience of working with us. People with newly registered lost-time claims for musculoskeletal injuries were first to gain access to the new online services, with over 700 registrations within the first few weeks. These services will be expanded to more claim types in the coming months.

Expanding our online services is one of the many improvements the WSIB has planned to improve people's outcomes and experience with us.

This quarter also saw 79% of people with claims report that they were satisfied with their overall experience of working with us. This is the highest score for this group since we launched our quarterly satisfaction survey in 2015. Among businesses, 79% were satisfied, matching the satisfaction level of those with workplace injuries or illnesses.

While the results above are positive, we remain in an uncertain period. We will continue to manage prudently to ensure that benefits and services required are always available and that our financial stability remains. We are committed to working with integrity and compassion to support Ontarians and Ontario businesses, even in the most challenging of times. Together we can continue to build safer and healthier workplaces.

Elizabeth Witmer
Chair, WSIB

Thomas Teahen
President and CEO, WSIB

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 six months ended June 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)	**Jun. 30 2020**	**Dec. 31 2019**	**Change $**	**%**
Sufficiency Ratio assets	35,859	35,503	356	1.1
Sufficiency Ratio liabilities	(31,078)	(31,234)	156	0.6
Net assets on a Sufficiency Ratio basis	4,781	4,269	512	
Sufficiency Ratio	**115.4%**	**113.7%**		**1.7**

As shown above, as at June 30, 2020, the WSIB had net assets on a Sufficiency Ratio basis of $4,781 million. This means that the Sufficiency Ratio assets exceeded the Sufficiency Ratio liabilities and the WSIB had 115.4% 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 115.4% as at June 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 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

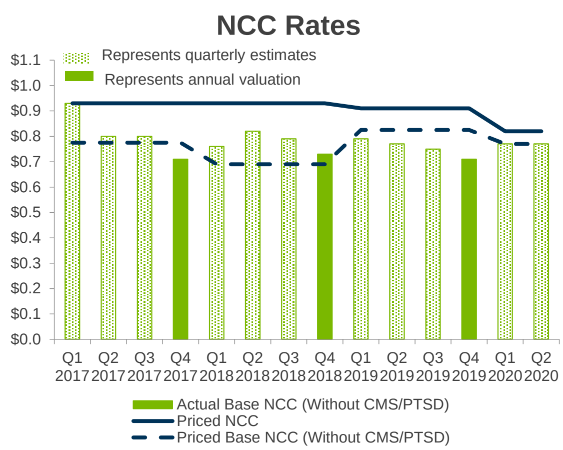
As of Q2 2020, our Sufficiency Ratio is at 115.4%. The risk of underfunding is projected to be low if the benefits remain unchanged, New Claim Costs ("NCC") continue to stabilize, and a potential second wave of the Coronavirus ("COVID-19") pandemic does not induce a devastating impact to the Ontario economy during the second half of 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 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 produced a 6.7% gross return during the second quarter, partially recovering from the -9.2% gross return experienced in the first quarter. 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 future economic shocks. For this reason, the WSIB continues to consult with government to establish a responsible reserve threshold, above the 100% funding requirement, within the WSIB's 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. 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;
- 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 have partially recovered in the second quarter 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, geopolitical risks related to the upcoming US elections and new trade tensions, with the introduction of tariffs in the midst of a pandemic, threaten to exacerbate an already fragile economy. The prospect of a second wave of the pandemic remains and, could potentially have more damaging effects on WSIB investments, the broader economy and the employers in Ontario. Although the WSIB anticipates overall revenue to be moderately impacted due to the less than anticipated decline in equity markets and businesses closing their operations, it 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 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 Second 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
June 30, 2020
(millions of Canadian dollars)

Sufficiency Ratio Statement

	Note(s)	**Jun. 30 2020**	**Dec. 31 2019**
Total assets under IFRS	2,4	38,565	40,536
Add (Less): Asset adjustment	2	686	(1,686)
Less: Sufficiency Ratio non-controlling interests	2	(3,392)	(3,347)
Sufficiency Ratio assets		35,859	35,503
Sufficiency Ratio liabilities	3	31,078	31,234
Sufficiency Ratio (assets divided by liabilities)		**115.4%**	**113.7%**

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

Notes to Sufficiency Ratio Statement
June 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 Q2 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. The COVID-19 pandemic has resulted in a loss event in Q2 2020 for certain of the WSIB's associates and joint ventures. 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, 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. Refer to note 5 for additional information on the repayment schedule under the financial relief package. As a result of employers electing to defer premium reporting and payments, 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 option. Critical assumptions used in the recognition of premium revenues and an allowance for doubtful accounts include the employment rate, average wage, and real GDP growth rate as it applies to Ontario's economic outlook as well as the WSIB's current and historical cash collection experience.

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 return

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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 market return volatility and is known as the asset adjustment.

As at June 30, 2020, the Sufficiency Ratio assets reflected an asset adjustment loss of $686 (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**	**Jun.30 2020**
Fair value of invested assets	29,366	33,996	34,872	38,959	36,570
Add (Less): Cash transfers in last month of period	(36)	(44)	(33)	8	237
Adjusted fair value of invested assets[1]	29,330	33,952	34,839	38,967	36,807
Less: Invested assets at expected rate of return[2]	29,070	32,200	36,807	36,324	39,144
Investment returns in excess of (lower than) expectations[3], gain (loss)	260	1,752	(1,968)	2,643	(2,337)
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**	**(651)**
Amount to be recognized from:					
2020 investment loss	-	-	-	-	(234)
2019 investment gain	-	-	-	528	264
2018 investment loss	-	-	(393)	(394)	(196)
2017 investment gain	-	350	351	351	175
2016 investment gain	52	52	52	52	26
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**	**35**
Total unrecognized investment returns at end of period[4]	**779**	**1,720**	**(423)**	**1,686**	**(686)**

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.
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:

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		Investment returns to be recognized in future years:				
Year earned	**Total unrecognized returns as at June 30, 2020**	**Remainder of 2020**	**2021**	**2022**	**2023**	**2024**
2020	(2,103)	233	468	467	468	467
2019	1,851	(265)	(529)	(528)	(529)	-
2018	(985)	198	393	394	-	-
2017	525	(175)	(350)	-	-	-
2016	26	(26)	-	-	-	-
	(686)	**(35)**	**(18)**	**333**	**(61)**	**467**

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

	Jun. 30 2020	**Dec. 31 2019**
Fair value of non-controlling interests	3,190	3,431
Add (Less): Asset adjustment	202	(84)
Sufficiency Ratio non-controlling interests	**3,392**	**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 $1,996 (December 31, 2019 – $1,283).
    - All other liabilities were determined in accordance with IFRS.

The Sufficiency Ratio liabilities are $31,078 (December 31, 2019 – $31,234), which includes the adjustment of $1,996 (December 31, 2019 – $1,283). Additional details of the breakdown of the liabilities are shown in note 4.

Notes to Sufficiency Ratio Statement
June 30, 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 June 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.

	June 30, 2020			**December 31, 2019**		
	IFRS Basis	**Adjust-ments**	**Sufficiency Ratio Basis**	**IFRS Basis**	**Adjust-ments**	**Sufficiency Ratio Basis**
Assets						
Cash and cash equivalents	4,484	-	4,484	3,408	-	3,408
Receivables and other assets	1,642	-	1,642	1,297	-	1,297
Investments	32,091	686[1]	32,777	35,475	(1,686)[1]	33,789
Property, equipment and intangible assets	348	-	348	356	-	356
Total assets	**38,565**	**686**	**39,251**	**40,536**	**(1,686)**	**38,850**
Liabilities						
Payables and other liabilities	1,186	-	1,186	1,163	-	1,163
Derivative liabilities	63	-	63	72	-	72
Long-term debt and lease liabilities	178	-	178	201	-	201
Loss of Retirement Income Fund liability	1,913	-	1,913	2,000	-	2,000
Employee benefit plans liability	2,602	(1,996)[2]	606	1,971	(1,283)[2]	688
Benefit liabilities	27,132	-	27,132	27,110	-	27,110
Total liabilities	**33,074**	**(1,996)**	**31,078**	**32,517**	**(1,283)**	**31,234**
Net assets						
Reserves	2.997	2,480	5,477	4,676	(319)	4,357
Accumulated other comprehensive loss	(696)	-	(696)	(88)	-	(88)
Net assets attributable to WSIB stakeholders	**2,301**	**2,480**	**4,781**	**4,588**	**(319)**	**4,269**
Non-controlling interests	3,190	202[1]	3,392	3,431	(84)[1]	3,347
Total net assets	**5,491**	**2,682**	**8,173**	**8,019**	**(403)**	**7,616**
Total liabilities and net assets	**38,565**	**686**	**39,251**	**40,536**	**(1,686)**	**38,850**
Sufficiency Ratio			**115.4%**			**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 $686 (December 31, 2019 – decrease of $1,686), which includes the interests in those assets held by third parties (non-controlling interests) of $202 (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 June 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.

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5. Subsequent event

WSIB financial relief package – repayment plan

On August 13, 2020, the WSIB announced that it will continue to help reduce the financial burden on businesses in Ontario during the COVID-19 pandemic, as any repayment of WSIB premiums deferred under the financial relief package, will not begin before January 2021. Any employer participating in the financial relief package will have to report deferred amounts by October 31, 2020. Regular monthly and quarterly reporting and payment schedules will resume in September 2020 for all businesses. The impact of the repayment schedule on the recognition of premium revenues and the allowance for doubtful accounts is currently being assessed.