Workplace Safety and Insurance Board

First Quarter **2021** Sufficiency Report

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Management's responsibility for financial reporting

The Sufficiency Ratio and related notes (the "Sufficiency Statement") and the Sufficiency Discussion and Analysis have been prepared by management and approved by the Board of Directors of the Workplace Safety and Insurance Board (the "WSIB"). The Sufficiency Ratio calculation has been prepared in accordance with *Ontario Regulation 141/12* made under the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), as amended by *Ontario Regulation 338/13* and, where appropriate, reflects management's best estimates and judgment. Management is responsible for the accuracy, integrity and objectivity of the Sufficiency Statement within reasonable limits of materiality and internal controls.

The Audit and Finance Committee of the Board of Directors meets with management and the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities. The Audit and Finance Committee also reports its findings to the Board of Directors for consideration in approving the Sufficiency Statement and its reporting submission to the Minister of Labour, Training and Skills Development (the "Minister") pursuant to Section 170 (1) of the WSIA.

This report should be read in conjunction with the WSIB's consolidated financial statements and accompanying notes for the year ended December 31, 2020, and the audited Sufficiency Statement as at December 31, 2020.

Tom Bell
President and Chief Executive Officer
June 17, 2021
Toronto, Ontario

Ernest Chui
Chief Financial Officer

Sufficiency discussion and analysis

1. Overview

An explanation of our report and regulations.

The purpose of this report is to provide the Sufficiency Ratio as required under Ontario legislation. The Sufficiency Ratio measures whether there are sufficient funds to meet the WSIB's future expected claims payouts.

Ontario Regulation 141/12 under the WSIA came into force on January 1, 2013 and requires the WSIB to calculate a Sufficiency Ratio and ensure the Sufficiency Ratio meets the prescribed levels by the following dates:

December 31, 2017	60%
December 31, 2022	80%
December 31, 2027	100%

Ontario Regulation 141/12, as amended by *Ontario Regulation 338/13,* which became effective January 1, 2014 (collectively, the “Ontario Regulations”), states that the Sufficiency Ratio shall be calculated by dividing the value of the insurance fund assets by the value of the insurance fund liabilities, as determined by the WSIB, using methods and assumptions that are consistent with accepted actuarial practice for going concern valuations. Going concern valuations are based on the assumption that the WSIB will continue to operate in the future indefinitely.

2. Year to date review

Our performance for the three months ended March 31, 2021 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)	**Mar. 31 2021**	**Dec. 31 2020**	**Change $**	**Change %**
Sufficiency Ratio assets	36,596	37,419	(819)	(2.2)
Sufficiency Ratio liabilities	(30,979)	(31,893)	914	2.9
Net assets on a Sufficiency Ratio basis	5,617	5,526	95	
Sufficiency Ratio	**118.1%**	**117.3%**		0.8

As shown above, as at March 31, 2021, the WSIB had net assets on a Sufficiency Ratio basis of $5,617 million. This means that the Sufficiency Ratio assets exceeded the Sufficiency Ratio liabilities and the WSIB had 118.1% 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 from prior periods and the going concern adjustments of the employee benefit plans liability.

The Sufficiency Ratio of 118.1% as at March 31, 2021 exceeds the legislated 100% funding level required on December 31, 2027. See Section 3 – Our funding strategy.

3. Our funding strategy

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

In accordance with *Ontario Regulation 141/12*, as amended, the WSIB submitted the 2020 Economic Statement to the Minister of Labour, Training and Skills Development in September 2020. The economic statement includes the sufficiency outlook, which describes the measures being taken by the WSIB to ensure that we have a high degree of confidence that our insurance fund will not fall below 100% funding. Concurrent with the release of the 2020 Economic Statement, the WSIB announced there will be no premium rate increase for 2021 and this rate will be held at the 2020 average Schedule 1 rate of $1.37.

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

We continually refine our strategy to ensure that the insurance fund can withstand future economic conditions, provide for benefits to people with work-related injuries or illnesses, and provide for premium rate stability for employers. Our Funding Policy requires the Chief Actuary to recommend and management to advise the WSIB as to the margin of prudence that should be maintained over and above the legislated requirement to ensure that we have a high degree of confidence that our insurance fund will not fall below 100% funding.

4. Insurance funding risk

Insurance funding risk refers to the risk that the WSIB may be underfunded or overfunded relative to the level of funding necessary to maintain a high level of assurance that the Sufficiency Ratio does not fall below 100%. As of the end of Q1 2021, our Sufficiency Ratio is at 118.1%. The risk of underfunding is projected to remain low if benefits remain unchanged, New Claim Costs (“NCC”) continue to stabilize, and investment returns are in line with the WSIB’s long-term return objective of earning at least 5% per annum (annualized) net of investment expenses.

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

Our mitigation of insurance funding risk includes, but is not limited to:

- Conducting regular modelling and monitoring of economic scenarios, including stress testing, to better understand the impact of economic risks and to determine the adequacy of our financial assumptions, budget updates, sufficiency planning, and rate setting;
- Determining benefit liabilities based on assumptions that gradually incorporate emerging experience, thus providing a relatively stable basis for pricing and sufficiency measurement;
- Monitoring for potential legislative changes that could impact benefit liabilities or costs;
- Conducting periodic asset-liability studies to ensure the WSIB’s long-term return objective and asset mix policy remain relevant, with consideration of the impacts of economic and other risk factors on the funding position and desired level of funding;
- Assessing actual investment performance relative to the WSIB’s return objective and asset mix policy; and
- Ensuring strong investment governance, effective diversification of assets, efficient cost structure and rigorous risk management of investment assets.

The COVID-19 pandemic continues to take a toll on many sectors of the economy. The federal and provincial government budgets outlined a number of measures to support businesses. The federal government has committed over $32 billion to help households and businesses get through the crisis, with major outlays to extend the wage subsidy program and maintain generous employment insurance benefits until September 2021. At the provincial level, the Ontario Small Business Support Grant is estimated at $1.7 billion and it is designed to help eligible employers impacted by necessary public health restrictions. These support programs are however driving up public debt to record levels, leaving governments vulnerable to higher-than-expected interest rates or future economic shocks. In its March policy rate announcement, the Bank of Canada held the overnight interest rate steady at 0.25%. The rate is expected to remain low until a 2% inflation target is sustainably achieved, which is not anticipated to happen until the second half of 2022 at the earliest. The COVID-19 pandemic has since taken a turn for the worse as a third wave has led to higher caseloads and hospitalizations. Governments across the

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

country have imposed a fresh round of restrictions in recent weeks in an attempt to slow the surge in cases even as vaccination rates increase. Despite ongoing shutdowns, Canada's economy has been more resilient than expected, with real GDP in Ontario projected to advance by 4.5% in 2021 and 3.5% in 2022, following a 5.5% drop in 2020.[2]

Despite the business contraction in Ontario as a result of COVID-19, premium revenues are expected to increase throughout 2021. This expectation reflects growth in insurable earnings as a result of the vaccine rollout and expected recovery in the economy in 2021. For those employers participating in the financial relief package, the standard repayment period began on January 1, 2021 and will end June 30, 2021. With the ongoing impact of the pandemic still being felt by Ontario businesses, the WSIB is continuing to work with certain employers who have requested additional time for full repayment. The increase to financial risk as a result of COVID-19 has also been reflected in volatile investment returns. After ending 2020 on a strong note, with a return of 5.2% in the fourth quarter, the Insurance Fund's return declined to -0.1% in the first quarter of 2021. Despite the global economy remaining at risk due to the ongoing pandemic and concerns around the spread of virus variants, global equities performed relatively well in the first quarter. However, the positive performance from global equities was insufficient to offset negative returns from fixed income as government bond yields rose in anticipation of higher inflation expectations from a continued recovery in the global economy.

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

As well, in order to further mitigate liquidity risks and provide the WSIB with flexibility to manage uncertainties due to COVID-19, the WSIB established a revolving line of credit in the amount of $900 million with the Ontario Financing Authority for a 14-month period beginning in October 2020. As at March 31, 2021, $400 million was drawn against the revolving line of credit of which, $190 million has been repaid. We will continue to pay $30 million in the beginning of each month until the loan is paid off.

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

While the WSIB monitors a portfolio of significant enterprise risks impacting our business, the insurance funding risk is the risk that is of greatest importance with respect to the WSIB's First Quarter 2021 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 Discussion and Analysis in the WSIB's 2020 Annual Report.

[2] The Conference Board of Canada, Vaccines Spur Recovery Hopes: Ontario's Two-Year Outlook — April 2021

Sufficiency Ratio Statement
March 31, 2021
(millions of Canadian dollars)

Sufficiency Ratio Statement

	Note(s)	Mar. 31 2021	Dec. 31 2020
Total assets under IFRS	2,4	38,334	40,837
Add (Less): Asset adjustment	2	(392)	(849)
Less: Sufficiency Ratio non-controlling interests	2	(1,346)	(2,569)
Sufficiency Ratio assets		36,596	37,419
Sufficiency Ratio liabilities	3	30,979	31,893
Sufficiency Ratio (assets divided by liabilities)		**118.1%**	**117.3%**

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

Notes to Sufficiency Ratio Statement
March 31, 2021
(millions of Canadian dollars)

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

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

During 2020, as a part of the effort to help reduce the financial burden of the COVID-19 pandemic, the WSIB, in partnership with the Government of Ontario, offered a financial relief package allowing employers to defer premium reporting and payments for the period from March 2020 until August 2020, with no interest or penalties accruing during the deferral period. The standard repayment period began on January 1, 2021 and will end June 30, 2021. With the ongoing impact of the pandemic still being felt by Ontario businesses, the WSIB is continuing to work with certain employers who have requested additional time for full repayment.

The WSIB continues to closely monitor developments related to the COVID-19 pandemic and its existing and potential impact on the WSIB's results and operations. Increased uncertainty has and could continue to impact financial results, as the duration of the COVID-19 pandemic, the effectiveness of steps undertaken by the government and vaccine efficacy, availability and uptake remain uncertain.

Uncertainty exists in the estimates and assumptions used by the WSIB and include, but are not limited to, the recognition of an allowance for doubtful accounts for amounts outstanding under the financial relief package, the key unobservable inputs used in assessing the fair value of certain financial instruments and investment properties, the impairment assessment of investments in associates and joint ventures, the fair value of plan assets for the pension obligation and employee benefit plans, and the actuarial valuation of the benefit liabilities.

The WSIB has applied valuation techniques using estimates and assumptions that reflect information available when these unaudited condensed interim consolidated financial statements were prepared and management believes that the amounts recorded are appropriate. Changes in these key estimates and assumptions could materially impact the carrying values of the respective assets and liabilities.

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 a net expected long-term annual return are deferred and recognized over the next five years on a straight-line basis. After five years, those past investment gains and losses are fully recognized in the asset value. This procedure moderates the effect of investment market return volatility and is known as the asset adjustment.

As at March 31, 2021, the Sufficiency Ratio assets reflected an asset adjustment of $392 (December 31, 2020 – $849) from assets reported under IFRS, representing the cumulative unrecognized investment returns in excess of the expected long-term annual rate of return assumption, net of investment expenses.

Notes to Sufficiency Ratio Statement
March 31, 2021
(millions of Canadian dollars)

The development of the asset adjustment is detailed as follows:

	Dec.31 2017	**Dec.31 2018**	**Dec.31 2019**	**Dec.31 2020**	**Mar.31 2021**
Fair value of invested assets	33,996	34,872	38,959	38,271	36,910
Add (Less): Cash transfers in last month of period	(44)	(33)	8	12	409
Adjusted fair value of invested assets[1]	33,952	34,839	38,967	38,283	37,319
Less: Invested assets at expected rate of return[2]	32,200	36,807	36,324	38,658	37,693
Investment returns in excess of (lower than) expectations[3], gain (loss)	1,752	(1,968)	2,643	(375)	(374)
Add (Less): Unrecognized investment returns at prior period end	779	1,720	(423)	1,686	849
Total unrecognized investment gains (losses)	**2,531**	**(248)**	**2,220**	**1,311**	**475**
Amount to be recognized from:					
2021 investment loss	-	-	-	-	(20)
2020 investment loss	-	-	-	(75)	(19)
2019 investment gain	-	-	528	529	132
2018 investment loss	-	(393)	(394)	(394)	(98)
2017 investment gain	350	351	351	350	88
2016 investment gain	52	52	52	52	-
2015 investment loss	(3)	(4)	(3)	-	-
2014 investment gain	169	169	-	-	-
2013 investment gain	243	-	-	-	-
***Less*: Total recognized investment gains in current period**	**811**	**175**	**534**	**462**	**83**
Total unrecognized investment gains (losses) at end of period[4]	**1,720**	**(423)**	**1,686**	**849**	**392**

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 net long-term return objective is reviewed annually and has been as follows:

Year	2017	2018	2019	2020	2021
Net long-term return objective, annualized	4.75%	4.75%	4.75%	5.00%	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.

Notes to Sufficiency Ratio Statement
March 31, 2021
(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 gains/(losses) as at March 31, 2021**	**Remainder of 2021**	**2022**	**2023**	**2024**	**2025**
2021	(354)	55	75	74	75	75
2020	(281)	56	75	75	75	-
2019	1,454	(397)	(528)	(529)	-	-
2018	(689)	295	394	-	-	-
2017	262	(262)	-	-	-	-
	392	**(253)**	**16**	**(380)**	**150**	**75**

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

	Mar. 31 2021	**Dec. 31 2020**
Fair value of non-controlling interests [1]	1,387	2,502
Add (Less): Asset adjustment	(41)	67
Sufficiency Ratio non-controlling interests	1,346	2,569

1. The decrease in fair value of non-controlling interests is mainly related to the derecognition of $1.2 billion of the Employee's Pension Plan's proportionate share of net assets, as a result of strategic changes in WSIB's investment portfolio during the quarter.

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, 2020 – 4.75%) per annum, as described in note 20 of the WSIB's 2020 annual consolidated financial statements.
- Loss of Retirement Income Fund liability was determined in accordance with IFRS. The liability is equal to the fair value of assets held.
- Employee benefit plans liability was determined using methods and assumptions that are consistent with accepted actuarial practice for going concern valuations. Obligations were calculated by an actuarial valuation with a discount rate of 5.00% (December 31, 2020 – 5.00%) 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 3.30% (December 31, 2020 – 2.60%) 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 $1,189 (December 31, 2020 – $2,118).
    - All other liabilities were determined in accordance with IFRS.

Notes to Sufficiency Ratio Statement
March 31, 2021
(millions of Canadian dollars)

The Sufficiency Ratio liabilities are $30,979 (December 31, 2020 – $31,893), which includes the adjustment of $1,189 (December 31, 2020 – $2,118). Additional details of the breakdown of the liabilities are shown in note 4.

Notes to Sufficiency Ratio Statement
March 31, 2021
(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, 2021 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.

	March 31, 2021			**December 31, 2020**		
	IFRS Basis	**Adjust-ments**	**Sufficiency Ratio Basis**	**IFRS Basis**	**Adjust-ments**	**Sufficiency Ratio Basis**
Assets						
Cash and cash equivalents	1,775	-	1,775	4,969	-	4,969
Receivables and other assets	1,470	-	1,470	2,171	-	2,171
Investments	34,768	(392)[1]	34,376	33,362	(849)[1]	32,513
Property, equipment and intangible assets	321	-	321	335	-	335
Total assets	**38,334**	**(392)**	**37,942**	**40,837**	**(849)**	**39,988**
Liabilities						
Payables and other liabilities	753	-	753	1,696	-	1,696
Borrowings	210	-	210	400	-	400
Derivative liabilities	141	-	141	92	-	92
Long-term debt and lease liabilities	173	-	173	175	-	175
Loss of Retirement Income Fund liability	1,985	-	1,985	2,003	-	2,003
Employee benefit plans liability	1,934	(1,189)[2]	745	2,735	(2,118)[2]	617
Benefit liabilities	26,972	-	26,972	26,910	-	26,910
Total liabilities	**32,168**	**(1,189)**	**30,979**	**34,011**	**(2,118)**	**31,893**
Net assets						
Reserves	4,821	838	5,659	5,167	1,202	6,369
Accumulated other comprehensive loss	(42)	-	(42)	(843)	-	(843)
Net assets attributable to WSIB stakeholders	**4,779**	**838**	**5,617**	**4,324**	**1,202**	**5,526**
Non-controlling interests	1,387	(41)[1]	1,346	2,502	67[1]	2,569
Total net assets	**6,166**	**797**	**6,963**	**6,826**	**1,269**	**8,095**
Total liabilities and net assets	**38,334**	**(392)**	**37,942**	**40,837**	**(849)**	**39,988**
Sufficiency Ratio			**118.1%**			**117.3%**

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, 2020 – 5.00%), resulting in a decrease of $392 (December 31, 2020 – $849), which includes the interests in those assets held by third parties (non-controlling interests) of $41 (December 31, 2020 – increase of $67).

2. Reflects the use of a going concern discount rate of 5.00% (December 31, 2020 – 5.00%). For the purposes of the unaudited condensed interim consolidated financial statements, an accounting weighted average discount rate of 3.30% was used as at March 31, 2021 (December 31, 2020 – 2.60%). 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.