Workplace Safety and Insurance Board

Third Quarter **2021** Sufficiency Report

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Third 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 unaudited condensed interim consolidated financial statements and accompanying notes as at and for the nine months ended September 30, 2021 (the "unaudited interim consolidated financial statements").

Tom Bell
President and Chief Executive Officer
December 16, 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 nine months ended September 30, 2021 and the effect on our Sufficiency Ratio.

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

	Sep. 30	Dec. 31	Change	
(millions of Canadian dollars)	**2021**	**2020**	**$**	**%**
Sufficiency Ratio assets	38,014	37,419	595	1.6
Sufficiency Ratio liabilities	(31,586)	(31,893)	307	1.0
Net assets on a Sufficiency Ratio basis	6,428	5,526	902	
Sufficiency Ratio	**120.4%**	**117.3%**		**3.1**

As shown above, as at September 30, 2021, the WSIB had net assets on a Sufficiency Ratio basis of $6,428 million. This means that the Sufficiency Ratio assets exceeded the Sufficiency Ratio liabilities and the WSIB had 120.4% of the assets required to meet its potential future obligations.

The increase in the Sufficiency Ratio was primarily attributable to the recognition of current period investment gains and deferred investment income from prior periods and the going concern adjustments of the employee benefit plans liability.

The Sufficiency Ratio of 120.4% as at September 30, 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 2021 Economic Statement to the Minister of Labour, Training and Skills Development in September 2021. 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 full funding. Concurrent with the release of the 2021 Economic Statement, the WSIB announced the average premium rate for 2022 will be $1.30, which is 5.1% lower than in 2021 and 2020.

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 full 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 Q3 2021, the WSIB's Sufficiency Ratio is at 120.4%. The risk of underfunding is projected to remain low if benefits remain unchanged, New Claim Costs 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.

Although the COVID-19 pandemic continues to impact various sectors across the country amid a fourth wave, increased vaccinations along with proof-of-vaccination protocols continue to contribute to economic recovery. In addition, the provincial government and many firms in the private sector have begun mandating full vaccinations or regular testing as part of their return-to-work policies. These measures are expected to keep the pandemic under control and maintain economic recovery although it may continue to be uneven. Job growth in September underscores the growing resilience of the labour market to the pandemic,[2] while an increase in the demand for goods and services coupled with supply-chain issues accelerated Canada's inflation rate accelerated to 4.4% in September (boosted mostly by gasoline and food prices), well above the Bank of Canada's 1%-3% target range.

Although measures taken to keep the pandemic under control have resulted in expectations for a continued market and economic recovery, the global economy faces other potential headwinds in addition to the delta variant of COVID-19. Among these potential headwinds are continued supply chain strains, labour shortages, rising food and commodity prices that could feed into higher inflation and central banks

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

[2] The Conference Board of Canada, September job growth testifies to labour market's resilience:— October 8, 2021

beginning to withdraw stimulus, which, together, could negatively impact the economic recovery over the coming quarters.

In financial markets, developed market equities were roughly flat in the third quarter, while emerging market equities underperformed, driven by a sell-off in Chinese equities. Global sovereign bond yields experienced little change during the quarter. After generating a strong return of +4.2% in the second quarter, the Insurance Fund posted a return of +1.2% in the third quarter, with all asset classes, except Fixed Income, contributing positively to performance. Private Markets was the best performing asset class, returning +4.1%, while Public Markets continued its positive performance, returning +1.1% over the quarter. Over the year-to-date period through September 30, the Insurance Fund has returned +5.5%, led by Public Markets, Private Markets and Public Markets Alternatives, which have returned +10.5%, +9.4%, and +5.1%, respectively. Despite rebounding strongly in the second quarter, Fixed Income returned -1.0% in the third quarter, bringing year-to-date returns to -4.7%. The negative performance of Fixed Income has been driven by rising government bond yields on expectations for rising inflation.

For those employers participating in the financial relief package, the standard repayment period began on January 1, 2021 and ended 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 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 September 30, 2021, $400 million was drawn against the revolving line of credit, of which $370 million has been repaid. The amount of the loan as at September 30, 2021 was $30 million, and was repaid on October 1, 2021.

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 that may impact our business, the insurance funding risk remains a risk of the greatest importance for the Third 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.

Sufficiency Ratio Statement
September 30, 2021
(millions of Canadian dollars)

Sufficiency Ratio Statement

	Note(s)	Sep. 30 2021	Dec. 31 2020
Total assets under IFRS	2,4	40,409	40,837
Less: Asset adjustment	2	(1,455)	(849)
Less: Sufficiency Ratio non-controlling interests	2	(940)	(2,569)
Sufficiency Ratio assets		38,014	37,419
Sufficiency Ratio liabilities	3	31,586	31,893
Sufficiency Ratio (assets divided by liabilities)		**120.4%**	**117.3%**

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

Notes to Sufficiency Ratio Statement
September 30, 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 ended 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 remains uncertain.

Uncertainty exists in the estimates and assumptions used by the WSIB, which include, but are not limited to, 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 that are invested in the financial markets are valued at fair value; however, only a portion of the investment gains or losses is included in the asset value. Specifically, the current period's investment returns above or below 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 September 30, 2021, the Sufficiency Ratio assets reflected an asset adjustment total of $1,455 (December 31, 2020 – $849) from assets reported under IFRS. The total asset adjustment is comprised of the cumulative unrecognized investment returns in excess of the expected long-term annual rate of return assumption, net of investment expenses of $1,298, and the restricted cash balance of $157, which consists of funds received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit program.

Notes to Sufficiency Ratio Statement
September 30, 2021
(millions of Canadian dollars)

The development of the asset adjustment related to investments is detailed as follows:

	Dec.31 2017	Dec.31 2018	Dec.31 2019	Dec.31 2020	Sep.30 2021
Fair value of invested assets	33,996	34,872	38,959	38,271	38,157
Add (Less): Cash transfers in last month of period	(44)	(33)	8	12	125
Adjusted fair value of invested assets[1]	33,952	34,839	38,967	38,283	38,282
Less: Invested assets at expected rate of return[2]	32,200	36,807	36,324	38,658	37,392
Investment returns in excess of (lower than) expectations,[3] gain (loss)	1,752	(1,968)	2,643	(375)	890
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**	**1,739**
Amount to be recognized from:					
2021 investment gain	-	-	-	-	133
2020 investment loss	-	-	-	(75)	(57)
2019 investment gain	-	-	528	529	396
2018 investment loss	-	(393)	(394)	(394)	(294)
2017 investment gain	350	351	351	350	263
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**	**441**
Total unrecognized investment gains (losses) at end of period[4]	**1,720**	**(423)**	**1,686**	**849**	**1,298**

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
September 30, 2021
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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 Sep. 30, 2021**	**Remainder of 2021**	**2022**	**2023**	**2024**	**2025**
2021	757	(45)	(178)	(178)	(178)	(178)
2020	(243)	18	75	75	75	-
2019	1,190	(133)	(528)	(529)	-	-
2018	(493)	99	394	-	-	-
2017	87	(87)	-	-	-	-
	1,298	**(148)**	**(237)**	**(632)**	**(103)**	**(178)**

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

	Sep. 30 2021	**Dec. 31 2020**
Fair value of non-controlling interests[1]	1,085	2,502
Add (Less): Asset adjustment	(145)	67
Sufficiency Ratio non-controlling interests	**940**	**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 second quarter and an additional derecognition of $0.4 billion decrease in investments during the third quarter. These decreases were offset slightly by net contributions and earnings during the period in the amount of $0.2 billion.

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 $1,102 (December 31, 2020 – $2,118).
- Payables and other liabilities were adjusted by $157 to reflect the balance of restricted cash received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit program, which remains unpaid.
- All other liabilities were determined in accordance with IFRS.

Notes to Sufficiency Ratio Statement
September 30, 2021
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The Sufficiency Ratio liabilities are $31,586 (December 31, 2020 – $31,893), which includes the adjustment total of $1,259 (December 31, 2020 – $2,118). The total liabilities adjustment is comprised of the employee benefit plans liability reduction of $1,102 and $157 that reflects restricted funds received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit program, which remain unpaid. Additional details of the breakdown of the liabilities are shown in note 4.

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

A reconciliation of the assets and liabilities used for the calculation of the Sufficiency Ratio to those under IFRS as at September 30, 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.

	September 30, 2021			December 31, 2020		
	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis
Assets						
Cash and cash equivalents	1,135	(157)[1]	978	4,969	-	4,969
Receivables and other assets	1,579	-	1,579	2,171	-	2,171
Investments	37,398	(1,298)[2]	36,100	33,362	(849)[2]	32,513
Property, equipment and intangible assets	297	-	297	335	-	335
Total assets	**40,409**	**(1,455)**	**38,954**	**40,837**	**(849)**	**39,988**
Liabilities						
Payables and other liabilities	1,650	(157)	1,493	1,696	-	1,696
Borrowings	30	-	30	400	-	400
Derivative liabilities	112	-	112	92	-	92
Long-term debt and lease liabilities	171	-	171	175	-	175
Loss of Retirement Income Fund liability	2,031	-	2,031	2,003	-	2,003
Employee benefit plans liability	1,892	(1,102)[3]	790	2,735	(2,118)[3]	617
Benefit liabilities	26,959	-	26,959	26,910	-	26,910
Total liabilities	**32,845**	**(1,259)**	**31,586**	**34,011**	**(2,118)**	**31,893**
Net assets						
Reserves	6,351	(51)	6,300	5,167	1,202	6,369
Accumulated other comprehensive income (loss)	128	-	128	(843)	-	(843)
Net assets attributable to WSIB stakeholders	**6,479**	**(51)**	**6,428**	**4,324**	**1,202**	**5,526**
Non-controlling interests	1,085	(145)[2]	940	2,502	67[2]	2,569
Total net assets	**7,564**	**(196)**	**7,368**	**6,826**	**1,269**	**8,095**
Total liabilities and net assets	**40,409**	**(1,455)**	**38,954**	**40,837**	**(849)**	**39,988**
Sufficiency Ratio			**120.4%**			**117.3%**

1. Reflects the restricted cash balance consisting of 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.
2. Reflects the asset adjustment of our invested 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 $1,298 (December 31, 2020 – $849), which includes the interests in those assets held by third parties (non-controlling interests) of $145 (December 31, 2020 – increase of $67).
3. 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 September 30, 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.

Notes to Sufficiency Ratio Statement
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5. Subsequent events

Credit facility

On October 30, 2020, the WSIB entered into a revolving line of credit facility in the amount of $900 million with the Ontario Financing Authority (“OFA”) for the purpose of supporting the financial relief package offered to employers; the OFA and the WSIB are related parties. On October 1, 2021, amounts drawn under this credit facility were fully repaid.

IMCO Public Market Alternatives Pooled Fund

On October 1, 2021, IMCO launched the IMCO Public Market Alternatives Pool (“PMA Pool”) as part of its Pooled Asset Management strategy. The WSIB participated in the PMA Pool, transferring over $2.6 billion of Public Market Alternative investments. The WSIB is still assessing the impact of this transfer but it is expected that $0.3 billion of assets will be derecognized, with a corresponding decrease in non-controlling interests.