Workplace Safety and Insurance Board

2012 Sufficiency Report to Stakeholders

Workplace Safety and Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

Table of Contents

President and CEO's Message

The Workplace Safety and Insurance Board (the "WSIB") has a statutory responsibility to ensure the Province of Ontario's workplace compensation system remains financially viable and is a key pillar of the WSIB's overall strategic plan. We are focused on eliminating the WSIB's unfunded liability, which stood at $13.1 billion as at December 31, 2012 on a Sufficiency Ratio basis. An unfunded liability or UFL occurs when liabilities (the estimated current value of future benefit payments), exceed the current value of assets. Our UFL as at December 31, 2012 means the WSIB only has 56.9% of the assets required to meet its future benefit obligations and consequently $13.1 billion of our insurance plan liabilities are unfunded.

Our stakeholders appreciate the need to return the Province's compensation system to sustainability and our plan is to do so with fairness and transparency. Injured workers must continue to be supported to recover as quickly as possible and to safely return to work; at the same time, Ontario's current and future employers must not be unduly burdened by efforts to reduce the UFL, while future employers should not be left to bear the cost of injuries incurred today.

The WSIB has been carrying the UFL for a very long time. The deficiency has grown from approximately $2 billion in 1983, to $5.6 billion in 2000 to $13.1 billion today. The rise in the UFL has been driven largely by insufficient premiums and rising claim and health-care costs. Average premium rates remained more or less unchanged between 2000 and 2009, with only modest increases thereafter. Despite cost-restraint policies, benefit costs rose during this period. The result was a cumulative operating deficit from 2000 to 2011 of $8.4 billion. In addition, with a smaller investment fund than the liabilities, investment income was insufficient to cover neither the expected interest portion of prior claims, nor contribute to the reduction of the UFL.

In 2009, the Auditor General of Ontario expressed concern that the growth and magnitude of the UFL posed a risk to the system's financial viability and ultimately could result in the WSIB being unable to meet its existing and future financial commitments to provide worker benefits. Given the size of the UFL and the threat it poses to the future of the WSIB's Insurance Fund, in June 2012 the Ontario Government passed *Ontario Regulation 141/12* (O.Reg 141/12) that mandated that the Sufficiency Ratio meet certain prescribed targets of 60% by December 31, 2017, 80% by December 31, 2022 and finally 100% by December 31, 2027.

To meet the Sufficiency Ratio targets in 2017 through 2027, we will prudently manage our operations to ensure premiums match current period costs and our investments to generate returns that meet or exceed the actuarial discount rate.

We are doing a better job than ever before at providing the fundamentals – claims management, health care, and work reintegration, resulting in reduced benefit costs while improving the outcomes for injured workers. In 2011, for the first time in 14 years, we did not withdraw from the Investment Fund to cover operating expenses. In 2012, we contributed $300 million to the Investment Fund.

To ensure transparency, we will report on how we are progressing to meet our mandated targets. This report, including the attached Sufficiency Statement, will be prepared quarterly to provide consistent and transparent disclosure of how we are meeting our regulatory obligations including our commitment to eliminate the UFL. I look forward to reporting on our continued progress.

I. David Marshall
President and Chief Executive Officer

June 19, 2013
Toronto, Ontario

Management's Responsibility for Financial Reporting

Management's review of the Sufficiency Ratio and related notes and management's discussion of Funding Levels and Risks (the "Sufficiency Statement") 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 the accounting policies described in note 2, pursuant to O.Reg 141/12 made under the *Workplace Safety and Insurance Act, 1997* (the "Regulation"), and where appropriate, reflect management's best estimates and judgment. Where alternative accounting methods exist, management has chosen those methods considered most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the Sufficiency Statement within reasonable limits of materiality of internal controls. Management is also responsible for the preparation and presentation of additional financial information in the Annual Report and ensuring its consistency with the Sufficiency Statement.

The Audit and Finance Committee of the Board of Directors meets with management as well as with the independent auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and reviews the Sufficiency Statement and the Independent Auditor's Report. 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 (the "Minister") pursuant to *S. 170 (1) of the Workplace Safety and Insurance Act,1997*.

The Sufficiency Statement has been examined by the WSIB's independent auditors, KPMG LLP, Chartered Accountants, and their report is provided herein.

I. David Marshall
President and Chief Executive Officer

Lawrence E. Davis
Chief Financial Officer

June 19, 2013
Toronto, Ontario

Review of Funding and Risks

Table of Contents

1 Overview

An explanation of our first reporting year and definitions

The following Review of Funding and Risks should be read in conjunction with the audited consolidated financial statements and accompanying notes of the WSIB as at and for the year ended December 31, 2012 (the "consolidated financial statements") and the audited Sufficiency Statement and accompanying notes of the WSIB as at December 31, 2012 (the "Sufficiency Report to Stakeholders").

The *Workplace Safety and Insurance Act*, *1997* (the "WSIA") governs the operations of the WSIB. One of the statutory purposes of the WSIA is to provide compensation and other benefits to workers and to the survivors of deceased workers in a financially responsible and accountable manner.

The WSIA requires the WSIB to make payments for current benefits as they come due and to provide for future benefits. Further, it requires that the WSIB shall maintain the Insurance Fund so as not to burden unduly or unfairly any class of Schedule 1 employers with payments, in any year in respect of current benefits, or in future years in respect of future benefits.

In June 2012, the Ontario Government passed Regulation 141/12 (O.Reg 141/12), which requires the WSIB to meet prescribed sufficiency targets by certain dates over the next 15 years. O.Reg 141/12 is a regulation under the WSIA and addressed the WSIB's UFL, which has increased to a significant size and poses a threat to the future of the WSIB's Insurance Fund. O.Reg 141/12 mandated that the WSIB's Sufficiency Ratio meet the following prescribed ratios:

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

Under the WSIA and O.Reg 141/12, the WSIB is required to submit a Sufficiency Plan to the Minister of Labour by June 30, 2013 describing the measures being taken by the WSIB to improve the Sufficiency Ratio and how these measures will achieve the prescribed targets.

In order to provide an objective measure to track achievement toward legislated and regulatory requirements and demonstrate sustainable funding, we use a calculation that compares our assets to our liabilities known as a Sufficiency Ratio. Our Sufficiency Ratio is used to assess the extent of risk posed by the UFL to the WSIB. The Sufficiency Ratio places the UFL in the context of the WSIB's overall financial position. Expressed as a percentage of our liabilities, the Sufficiency Ratio is calculated by dividing assets by liabilities. The result is the percentage of the liabilities that are funded by assets. At 100%, we have sufficient assets to pay all benefits estimated to date, that is, in respect of injuries that have already occurred (injuries that will occur in the future will be covered by future premiums). At less than 100%, we have an insufficient amount of assets to pay all benefits estimated to date. As at December 31, 2012, our Sufficiency Ratio was 56.9%.

This is our first Sufficiency Report. We will report the Sufficiency Ratio, our Review of Funding and Risks and our progress toward meeting the prescribed Sufficiency Ratios on a quarterly basis.

Definitions

"Employee Benefit Plans" refer to the long-term benefit plans offered to permanent employees of the WSIB. They include pension and other post-employment benefit plans.

"Employee Benefit Plans Ratio" refers to the ratio of the Employee Benefit Plans' assets to the Employee Benefit Plans' liabilities as presented in the Sufficiency Statement, and is expressed as a percentage.

"Funding Ratio" refers to the ratio of total assets of the WSIB, less non-controlling interests to the total liabilities of the WSIB, as presented in the WSIB's consolidated financial statements prepared in accordance with IFRS and is expressed as a percentage.

"Insurance Fund" refers to the assets and liabilities of the WSIB, excluding the Employee Benefit Plans' assets and obligations.

"Insurance Fund Ratio" refers to the ratio of Insurance Fund assets to Insurance Fund liabilities as presented in the Sufficiency Statement and is expressed as a percentage.

"Non-controlling Interests" Non-controlling interests represent the WSIB Employees' Pension Plan and other investors' proportionate interest of the net assets and comprehensive income of subsidiaries in which the WSIB directly or indirectly owns less than 100%. Comprehensive income and the surplus or deficiency of assets related to these subsidiaries are allocated to such non-controlling interests.

"Sufficiency Ratio" refers to the ratio of total assets of the WSIB, less non-controlling interests to the total liabilities of the WSIB, as presented in the Sufficiency Statement, and is expressed as a percentage.

"Sufficiency Statement" refers to the statement that presents the Sufficiency Ratio, Insurance Fund Ratio, and Employee Benefit Plans Ratio. The basis of accounting for the Sufficiency Ratio is found in note 2 of the Sufficiency Statement.

2 The Sufficiency Ratio Calculation Methodology

A description of the components of the Sufficiency Ratio calculation

We calculate our Sufficiency Ratio by comparing assets on hand to total estimated liabilities. This fundamental measure is comparable with the methods used by other Canadian workers' compensation boards and as reported by the Association of Workers' Compensation Boards of Canada ("AWCBC") to measure the adequacy of funding and is a measure used by leading pension plans around the world. However, a standard definition for Sufficiency Ratio does not exist.

As at December 31, 2012, we had a funding shortfall of $13.1 billion on a Sufficiency Ratio basis, which means our liabilities (the estimated current value of future benefit payments) exceed the current value of our assets. Expressed in percentage terms, we had 56.9% of the assets required to meet our future benefit obligations.

The WSIB has a statutory responsibility to ensure Ontario's workplace compensation system remains financially viable. While we have $17.6 billion of investments on hand, the WSIB does not have sufficient funds on hand to cover the future cost of existing claims in the system. The existence of unfunded future liabilities transfers costs from one generation of employers to another which has serious consequences for the perceived fairness and affordability of benefits by future employers, and, if not addressed, could lead to endangering future worker benefits.

We considered the following principles to represent the tenets of a fair and transparent funding system and used them as a basis for the selection of the methodology to calculate the Sufficiency Ratio:

- Stability of Premiums – annual premiums should be predictable and stable
- Transparent and Understandable – employers should be able to clearly understand how the WSIB makes funding decisions
- Financial Security – the WSIB should act in a financially prudent manner in support of the sustainability of the workplace compensation system
- Ease of Administration – the WSIB should administer the funding/pricing system efficiently and effectively
- Collective Liability – funding the system adequately means all Schedule 1 employers must collectively pay the premiums required each year to maintain the WSIB Insurance Fund
- Compliance with the WSIA – the WSIB must maintain the Insurance Fund so as not to burden unduly or unfairly any class of Schedule 1 employers with payments, in any year, in respect of current benefits, or in future years in respect of future benefits

As noted above, the Sufficiency Ratio must be calculated in a transparent manner that considers the nature of the WSIB and its stakeholders. As we are using asset and liability values derived from our consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), the Sufficiency Ratio is subject to fluctuations reflecting investment market volatility and changes in accounting and actuarial standards. Ultimately, these fluctuations will translate into volatile employer premiums, which could unduly burden the stakeholders of the WSIB.

The WSIB should have a Sufficiency Ratio measurement definition that will be consistent and transparent throughout the period of regulation to provide all stakeholders with stability in measurement. The following facts and objectives were used in the determination of an appropriate measurement definition:

- stable and predictable average premiums for employers as the Sufficiency Ratio will be a significant factor in the determination of premium rates
- injured workers and their beneficiaries must be assured payment
- revenues must be aligned with the WSIB's long-term costs
- our obligations extend over many years and in some cases decades
- our investment policy is designed to achieve targeted returns over the long-term
- Canadian Actuarial Standard of Public Personal Injury Compensation Plans (PPICP) requires benefit liabilities to be valued on a going concern basis

Accordingly, after a comprehensive review of the practices at other provincial workers' compensation boards, large public pension plans and researching professional standards and guidance and consultation with third party experts, we concluded that a long-term, going concern approach for assets and liabilities would be appropriate and meet the objectives of our stakeholders. As the current Regulation does not contemplate a going concern approach for assets, we have adopted the following policies for the Sufficiency Ratio. We have requested a regulation change from the Ministry of Labour.

Sufficiency Ratio Calculation Policies

Set forth below is a summary of the accounting policies used to calculate our Sufficiency Ratio as at December 31, 2012 based on our interpretation of O.Reg 141/12.

Assets

The assets included in the Sufficiency Ratio are calculated as our total assets shown on our consolidated financial statements less the interest in those assets held by third parties (non-controlling interests). This adjustment is necessary as our assets include portions of investments to which third parties ultimately have rights (including the assets of the WSIB Employee Pension Plan) and therefore would not be appropriate to include in our Sufficiency Ratio.

Liabilities

The liabilities included in the Sufficiency Ratio are calculated as our total liabilities shown on our consolidated financial statements adjusted to reflect the valuation of Employee Benefit Plans obligations on a going concern rather than market basis.

Under IFRS, we are required to value the obligations of our Employee Benefit Plans based on market yields of high quality corporate bonds at the end of a reporting period. This results in volatility from movements in short-term interest rates. Accordingly, for the Sufficiency Ratio, we are valuing liabilities on a long-term going concern basis consistent with accepted actuarial practices used to value our Insurance Fund liability.

Future Sufficiency Ratio Calculation Policies

The following policies are under review for incorporation into our funding policy.

Amortizing Investment Gains and Losses

In accordance with IFRS, we value our investments based on market values. Market values provide a snapshot of value as at the consolidated statement of financial position date. As our investment strategy and many of our underlying investments are intended to yield returns over the long-term, any short-term losses should not necessarily signal the need to increase premium rates or reduce worker benefits. Conversely, significant short-term gains in asset value do not necessarily mean the UFL has been permanently reduced and funds are available to lower employer premium rates or suggest there is capacity to increase worker benefits. To avoid rate fluctuations generated by financial market volatility, we are considering amortizing investment gains and losses for the purposes of the Sufficiency Ratio.

For the purpose of the Sufficiency Ratio calculation, we will amortize investment gains and losses that differ from the long-term assumed rate of return over a five-year period, thus moderating the effect of investment market volatility on financial results. The long-term rate is based on extensive research and considers factors such as the WSIB's historical investment returns and expected future returns relevant to the WSIB's investment strategy. The rate currently is 5.5% for fiscal years 2013 through 2017 and 6.0% thereafter.

Amortizing returns over five years on a straight-line basis is consistent with guidance in the *Pension Benefits Act of Ontario* and is used by many large pension plans in Ontario. This approach takes into account the unique business requirements of Canadian workers' compensation systems, including the need for pricing stability (for employer premium rates) and benefit sustainability (for injured workers and their dependants). The amortization period of five years is considered an appropriate length of time to reduce the volatility of investment returns without deferring gains or losses unduly into future periods.

Future Changes in Legislation to Change Benefits or Services, Accounting and Actuarial Calculation Methodologies

Under IFRS, the impact of changes in accounting or actuarial standards is accounted for based on the specified transition period of the related new standard. The transition period can be immediate and can result in a significant charge in the year of adoption. Similarly, as part of our analysis and review of worker injuries and diseases, additional benefit obligations are sometimes required to be accrued for workers who are at risk for injury or impairment in the future due to the nature of their past and current employment. Under IFRS, changes in the Insurance Fund liability related to these new or incremental benefits or additional types of injury or disease coverage are recorded as an additional liability in the year of change.

Significant charges could have a significant impact on premiums and would unduly burden employers with additional premium payments in the year of adoption. This impact would contradict the WSIB’s goal of stable premiums and would not align premiums with the WSIB’s true long-term costs.

Accordingly, for purposes of the Sufficiency Ratio, changes in legislation or actuarial or accounting standards that result in minimal impact to our Insurance Fund liabilities will be recognized immediately. Changes resulting in a significant impact will be amortized over a reasonable period based on the size of their impact and their relation to the regulated sufficiency requirements, such period not to exceed five years.

Calculation of Sufficiency Ratio (millions of Canadian dollars)

Our Sufficiency Ratio as at December 31, 2012 is calculated as follows:

	2012
Total assets(1)	19,384
Less: Non-controlling interests in investments	2,103
Adjustment to amortize gains/losses on investments(2)	-
Total Assets	**17,281**
Total liabilities(1)	30,580
Adjustment to value employee benefit obligations using a going concern approach	194
Adjustment for significant new pronouncements/liabilities(3)	-
Total Liabilities	**30,386**
Sufficiency Ratio	**56.9%**

Notes:
(1) Per consolidated financial statements.
(2) Not applicable as at December 31, 2012 - amortization considered for commencement in fiscal 2013.
(3) Not applicable in the current year.

3 Our Funding Strategy

A discussion of our funding strategy and how we plan to increase the Sufficiency Ratio

In accordance with O.Reg 141/12, the WSIB is required to submit a Sufficiency Plan to the Minister of Labour describing the measures being taken by the WSIB to improve the Sufficiency Ratio and how these measures will achieve the prescribed ratios.

To meet the Sufficiency Ratio requirements for 2017 through 2027, we will manage our investments to generate returns that meet or exceed the expected long-term rate of return, while prudently managing the WSIB's operations to ensure premium revenues absorb benefit costs, administrative and other expenses and provide an allocation toward the retirement of the UFL. The WSIB has been managing its operations in this manner since early 2011, resulting in premium revenues exceeding operating expenses over this time period.

As a result, investment returns have accumulated and are being reinvested. While investment returns can vary from year to year, we expect to earn a return of 6.0% over 10 to 15 years. Our long-term estimated return on assets was determined after detailed analysis performed with external advisers. Our Statement of Investment Policies and Procedures requires a detailed analysis at least every four years.

4 Supplemental Measures

Supplemental measures to assess our financial condition

In addition to the Sufficiency Ratio, we also assess risks and sustainability by monitoring the Insurance Fund Ratio and the Employee Benefit Plans Ratio as noted below:

Insurance Fund Ratio (millions of Canadian dollars)

The Insurance Fund Ratio excludes the net surplus/deficit of the WSIB's Employee Benefit Plans in order to provide a measure of the WSIB's insurance operations and is calculated as follows:

	2012
Total assets per consolidated financial statements	19,384
Less: Non-controlling interests in investments	2,103
Total Assets	**17,281**
Total liabilities per consolidated financial statements	30,386
Less: Employee Benefit Plans liability (net deficit)	714
Total Liabilities	**29,672**
Insurance Fund Ratio	**58.2%**

Employee Benefit Plans Ratio (millions of Canadian dollars)

The Employee Benefit Plans of the WSIB are a component of total compensation for the WSIB's permanent employees. The Employee Benefit Plans Ratio provides a measure of the sufficiency of the Employee Benefit Plans.

The Employee Benefit Plans Ratio is calculated as follows:

	2012
Employee Benefit Plans assets	2,074
Divided by: Employee Benefit Plans liability	2,788
Employee Benefit Plans Ratio	**74.4%**

5. Risk Factors

A discussion of the more significant risk factors affecting our business

The significant risk factors that affect the operations of the WSIB are discussed in the Management's Discussion and Analysis in our 2012 Annual Report. The most significant risk factors affecting attainment of the legislated targets for our Sufficiency Ratio are presented below.

Business Risks

Investment rate of return
Our primary investment risk is that investment returns, taken together with a reasonable and sustainable level of contributions, are insufficient to meet the long-term obligations for which the Insurance Fund is established. This risk would be manifest in the failure to achieve a long-term investment return of 6% over a horizon of rolling ten to 15-year periods. Our overarching risk mitigation tool for investment risk is through the diversification of investment return sources as provided for in our Statement of Investment Policies and Procedures, which is presented annually to the Board of Directors for its approval.

Insurance Fund liabilities

The WSIB, in administering the Province's compensation system, must ensure there is adequate provision of funds to cover the cost of future claims and expenses. Insurance Fund liabilities, required to cover the ultimate benefits to be paid on claims, and the expenses of administering them, are calculated using sound actuarial practices to estimate costs based on a number of factors.

Establishing an appropriate level of benefit liabilities is an inherently uncertain process, which presents risks that could adversely affect our comprehensive income and financial condition, and our ability to maintain stable premium rates.

The risks are predominantly related to:

- failure to accurately make assumptions and assess the factors of claims costs, which may result in setting premium rates that are inadequate to cover costs and achieve sufficiency targets set by the Government; and
- unforeseen changes in the factors used to calculate the ultimate claims costs could render our estimates inaccurate.

We mitigate these risks:

- by utilizing both proprietary and commercially available actuarial models and assessing historical loss development patterns;
- with regular, ongoing reviews and re-evaluation of claims and their impact on the estimate of the benefit liability;
- by engaging external actuaries to review actuarial assumptions and methodologies in establishing benefit liabilities; and
- by reviewing actuarially related matters at regular meetings with our Actuarial Advisory Committee and WSIB's Chief Statistician.

Economic conditions and labour market changes

Given the WSIB's mandate to deliver a no-fault insurance plan, funded predominantly by premium revenue for operating capital, the WSIB is inherently subject to economic risks, including:

- low or modest growth in Ontario's employment levels, especially in covered industries, which may result in not meeting premium revenue targets as well as limiting work transition opportunities;
- the growing shift in the job market toward non-traditional jobs, such as knowledge work, generally supplied by non-compulsorily covered firms, which may adversely affect premium revenue;
- the trend toward casual, part-time and temporary work that may result in return to work challenges and, therefore, higher claims costs; and
- there are a growing number of older workers in the workforce, who, if injured, generally have a longer recovery time and a greater challenge with return to work.

We mitigate these risks by:

- conducting economic forecasting to better project the level of future insurable earnings and employment levels within the underlying industry sector; and
- continuous monitoring and researching of the job market for available, sustainable positions for injured workers ready to transition to the job market.

Regulatory, political and other influences

Our business is subject to changing political and regulatory influences. Any reform or amendment to the WSIA could require the WSIB to make adjustments. For example, changes in regulation can have an impact on the way we deliver services or the services themselves. This may require the dedication of WSIB resources to implement new systems or processes and/or address stakeholder concerns. One example is the implementation of Bill 119 requiring expanded coverage in the construction sector, which required new policies and a system to meet the increased demand for registration and clearance certificates by an implementation date established in law.

We mitigate this risk by:

- engaging with the Minister to understand the intent of the changes and to consult on the potential impact to outcomes and capacity;
- consulting with our stakeholder community during the planning and implementation of the changes; and
- ensuring any changes to existing programs are developed and implemented in a timely and seamless manner and that they align with our value propositions and organizational capabilities.

RESPONSIBILITY FOR REPORTING OF SUFFICIENCY RATIO

Role of Management

The accompanying Sufficiency Ratio and related notes (the "Sufficiency Statement") are the responsibility of the management of the Workplace Safety and Insurance Board ("WSIB") and have been prepared in accordance with the basis of accounting described in note 2, pursuant to O.Reg 141/12 made under the *Workplace Safety and Insurance Act, 1997*. The calculation of the Sufficiency Ratio includes amounts based on management's best estimates and judgments.

Management is responsible for the preparation of the Sufficiency Statement in accordance with the basis of accounting described in note 2, and for such internal control as management determines is necessary to enable the preparation of the Sufficiency Statement to be free from material misstatement, whether due to fraud or error. The Audit and Finance Committee of the Board of Directors ensures management fulfills these responsibilities. The Audit and Finance Committee meets periodically with management, the internal auditors, and external auditors to ensure their responsibilities are properly discharged with respect to the application of critical accounting policies, consolidated financial statement presentation, disclosures, and recommendations on internal control.

Role of the External Auditors

The external auditors, KPMG LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the Sufficiency Statement of the WSIB in accordance with the basis of accounting described in note 2. In carrying out their audit, the external auditors make use of the work of the external actuary and his report on the Insurance Fund liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The independent auditors' report outlines the scope of their audit and their opinion.

I. David Marshall
President and Chief Executive Officer

Lawrence E. Davis
Chief Financial Officer

June 19, 2013
Toronto, Ontario

INDEPENDENT AUDITORS' REPORT

To the Workplace Safety and Insurance Board,
the Minister of Labour and the Auditor General of Ontario

We have audited the accompanying Sufficiency Ratio of the Workplace Safety and Insurance Board as at December 31, 2012 and a summary of significant accounting policies and other explanatory information (together "the Sufficiency Statement"). The Sufficiency Statement has been prepared by management using the basis of accounting described in note 2.

Management's Responsibility for the Sufficiency Ratio
Management is responsible for the preparation and fair presentation of this Sufficiency Statement in accordance with the basis of accounting described in note 2; this includes determining that the basis of accounting is an acceptable basis for the preparation of the Sufficiency Statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of a Sufficiency Statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on the Sufficiency Statement based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Sufficiency Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Sufficiency Statement. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the Sufficiency Statement, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation of the Sufficiency Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the Sufficiency Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the Sufficiency Statement presents fairly, in all material respects, the Sufficiency Ratio of the Workplace Safety and Insurance Board as at December 31, 2012 in accordance with the basis of accounting described in note 2.

Basis of Accounting
Without modifying our opinion, we draw attention to note 2 to the Sufficiency Statement, which describes the basis of accounting. The Sufficiency Statement is prepared to provide information regarding the Sufficiency Ratio of the Workplace Safety and Insurance Board. As a result, the Sufficiency Statement may not be suitable for another purpose.

Chartered Accountants, Licensed Public Accountants
June 19, 2013
Toronto, Canada

WORKPLACE SAFETY AND INSURANCE BOARD
Sufficiency Statement
As at December 31, 2012
(millions of Canadian dollars)

Sufficiency Ratio

Sufficiency Ratio assets (note 3)	19,384
Less: Non-controlling interests	(2,103)
	17,281
Divided by: Sufficiency Ratio liabilities (note 3)	30,386
Sufficiency Ratio	**56.9%**

Supplemental Ratios

Insurance Fund Ratio

Insurance Fund assets (note 4)	19,384
Less: Non-controlling interests	(2,103)
	17,281
Divided by:	
Insurance Fund liabilities (note 4)	30,386
Less: Employee benefits plans liability, on the Sufficiency Ratio basis	714
	29,672
Insurance Fund Ratio	**58.2%**

Employee Benefit Plans Ratio

Employee Benefit Plans assets (note 5)	2,074
Divided by: Employee Benefit Plans liabilities (note 5)	2,788
Employee Benefit Plans Ratio	**74.4%**

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

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Sufficiency Statement
December 31, 2012
(millions of Canadian dollars)

Table of Contents

1 Governing regulation

Ontario Regulation 141/12 under the *Workplace Safety and Insurance Act (Ontario), 1997* (the "Regulation") came into force on January 1, 2013. The Regulation requires the Workplace Safety and Insurance Board (the "WSIB") to calculate a Sufficiency Ratio of the Insurance Fund and ensure the Sufficiency Ratio meets certain prescribed ratios by December 31, 2017, 2022 and 2027, respectively.

The Regulation states that the Sufficiency Ratio of the Insurance Fund shall be calculated by dividing the value of the Insurance Fund assets as of the date, as determined by the WSIB in accordance with accepted accounting principles, by the value of the Insurance Fund liabilities as of the date, as determined by the WSIB's actuary in an actuarial valuation.

2 Calculation of the Sufficiency Ratio

The consolidated financial statements of the WSIB prepared in accordance with IFRS have been adjusted for the items that follow, based on the Regulation, to derive the assets and liabilities used in the calculation of the Sufficiency Ratio in accordance with the Regulation.

Assets

Assets for the purposes of the Sufficiency Ratio calculation, have been determined by the WSIB to consist of the total consolidated assets of the WSIB less the interests in those assets of third parties, as represented by the balance of non-controlling interests.

Liabilities

Liabilities for the purposes of the Sufficiency Ratio have been determined as follows:

Insurance Fund liabilities have been determined through an actuarial valuation as described in note 18 of the WSIB's 2012 consolidated financial statements.

Employee Benefit Plans consist of long-term employee benefits including pensions and other post-employment benefits. The value of the liabilities of the Employee Benefit Plans have been determined through an actuarial valuation, using the going concern basis, which reflects the expected future returns on the WSIB's registered pension plan assets, less any required actuarial margin for adverse deviation, in determining the present value of benefit liabilities, consistent with the funding basis of the WSIB's pension plan. This discount rate is based on research by an actuarial consulting firm and considers factors such as the WSIB's historical investment returns and the WSIB's investment strategy. The liability reflects the use of a discount rate of 5.5% for fiscal years 2013 to 2017 and 6.0% thereafter determined with reference to the long-term expected rate of return on plan assets. This differs from the accounting basis used in preparing the WSIB's consolidated financial statements, which uses a discount rate of 3.90% based on high quality corporate bond yields rather than the returns expected on the WSIB's pension plan assets.

All other liabilities are determined on an accounting basis as recorded in the WSIB's consolidated financial statements.

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Sufficiency Statement
December 31, 2012
(millions of Canadian dollars)

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

A reconciliation of the total assets and liabilities used for the calculation of the Sufficiency Ratio to those under IFRS as at December 31, 2012 is provided below. The consolidated statement of financial position presented as the IFRS basis is the condensed consolidated statement of financial position from the WSIB's annual 2012 consolidated financial statements. The annual consolidated financial statements include explanatory notes. The funding ratio is defined as total assets less non-controlling interests per the IFRS consolidated financial statements, divided by total liabilities per the IFRS consolidated financial statements. An explanatory note follows the reconciliation.

	December 31, 2012		
	IFRS Basis	**Adjustments**	**Sufficiency Ratio Basis**
Assets			
Cash and cash equivalents	1,331	-	1,331
Receivables	1,009	-	1,009
Investments	16,880	-	16,880
Property and equipment	147	-	147
Intangible assets	17	-	17
Total assets	**19,384**	**-**	**19,384**
Liabilities			
Payables and accruals	1,038	-	1,038
Investment payables	38	-	38
Long-term debt	169	-	169
Loss of Retirement Income Fund liability	1,377	-	1,377
Employee Benefit Plans	908	(194) a	714
Benefit liabilities	27,050	-	27,050
Total liabilities	**30,580**	**(194)**	**30,386**
Deficiency of assets			
Unfunded liability attributable to WSIB stakeholders	(13,299)	194 a	(13,105)
Non-controlling interests	2,103	-	2,103
Total deficiency of assets	**(11,196)**	**194**	**(11,002)**
Total liabilities and deficiency of assets	**19,384**	**-**	**19,384**

Funding Ratio	56.5%	-
Sufficiency Ratio	-	56.9%
Insurance Fund Ratio	58.2%	58.2%
Employee Benefit Plan Ratio	69.3%	74.4%

Adjustments:

a) The effect of the use of a discount rate of 5.5% for fiscal years 2013 to 2017 and 6.0% thereafter based on the expected rate of return on plan assets. Under IFRS, a discount rate of 3.90% was used based on market yields on high quality corporate bonds (note 2).

4 Calculation of the Insurance Fund ratio

The Insurance Fund ratio is provided as a supplemental measure to illustrate the ratio of assets to liabilities of the WSIB prior to the inclusion of the Employee Benefit Plans. The Insurance Fund ratio is calculated using the same components as the Sufficiency Ratio as described in notes 2 and 3, except that the net liability of the Employee Benefit Plans as calculated in note 3 is excluded.

5 Calculation of the Employee Benefit Plans ratio

The Employee Benefit Plans ratio is provided as a supplemental measure to illustrate the ratio of the assets and the liabilities of the Employee Benefit Plans. The Employee Benefit Plans ratio is calculated by dividing the assets of the Employee Benefit Plans by the liabilities of the Employee Benefit Plans. The balance of the assets of the Employee Benefit Plans is the amount disclosed in note 17 of the consolidated financial statements prepared under IFRS. The balance of the liabilities of the Employee Benefit Plans is calculated using a discount rate of 5.5% for 2013 to 2017 and 6.0% thereafter determined with reference to the expected rate of return on plan assets as described in note 2.