Workplace Safety and Insurance Board

2013 First Quarter Sufficiency Report to Stakeholders

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President and CEO's Message

The Workplace Safety and Insurance Board has a statutory responsibility to ensure the Province of Ontario's workplace compensation system remains financially viable and financial viability is a key pillar of the WSIB's overall strategic plan. We are focused on eliminating the WSIB's unfunded liability or UFL, which stood at $12.4 billion on a sufficiency basis at March 31, 2013. A UFL occurs when liabilities (including the estimated present value of future benefit payments), exceed the value of assets. Our UFL as at March 31, 2013 means the WSIB only has 59.3% of the assets required to meet its future benefit obligations and other liabilities; consequently $12.4 billion of our Insurance Fund liabilities are unfunded.

Since our first Sufficiency Report, issued as at December 31, 2012, our Sufficiency Ratio has improved from 56.9% to 59.3%, reflecting continued operating improvements and a high return on investments, relative to long-term expectations. While we are encouraged by the positive results of the first quarter, we caution readers that the Sufficiency Ratio will be subject to variability and heavily influenced by returns on investments. Our long-term return on investments expectation is 6%; however, we have earned 4.5% in the first quarter of 2013 alone. Should investment markets deteriorate, our Sufficiency Ratio will be negatively impacted. Please see Section 3 of our Review of Funding and Risks for a discussion of an alternate measure that we believe better reflects our long-term funded position and Section 4 for further discussion on risks to the Sufficiency Ratio.

I look forward to reporting our continued progress in the coming quarters.

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 *Ontario Regulation 141/12* made under the *Workplace Safety and Insurance Act, 1997* (O. Reg 141/12 or 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.

I. David Marshall
President and Chief Executive Officer

Lawrence E. Davis
Chief Financial Officer

June 19, 2013
Toronto, Ontario

Review of Funding and Risks

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1 Overview

An explanation of our regulations and definitions

The following Review of Funding and Risks should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes of the WSIB as at and for the quarter ended March 31, 2013 (the “condensed interim consolidated financial statements”) and the Sufficiency Statement and accompanying notes of the WSIB as at March 31, 2013 (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.

Ontario Regulation 141/12 (“O.Reg 141/12”), which came into force January 1, 2013, requires the WSIB to meet prescribed Sufficiency Ratios by certain dates over the next 15 years. O.Reg 141/12 is a regulation under the WSIA and addresses 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 mandates that the WSIB’s Sufficiency Ratio meet the following prescribed ratios: 60% by December 31, 2017; 80% by December 31, 2022; and 100% by December 31, 2027.

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.

Specific definitions for a number of terms can be found in Section 5 of this report.

2 Quarter in Review

A discussion of our performance for the three months ended March 31, 2013 and the effect on our Sufficiency Ratio

Our Sufficiency Ratio increased from 56.9% as at December 31, 2012 to 59.3% as at March 31, 2013 reflecting continued operating improvements and a 4.5% return on our investments.

Our Employee Benefit Plans deficit, reported on a going concern basis in the determination of our Sufficiency Ratio decreased in the first quarter, primarily reflecting a 4.5% return on investments. Accordingly, our Employee Benefit Plans ratio increased from 74.4% as at December 31, 2012 to 76.5% as at March 31, 2013.

3 Alternate Sufficiency Measure

A discussion of an alternate measure for our Sufficiency Ratio

We conducted significant research into the calculation of the Sufficiency Ratio for the purposes of O. Reg 141/12, in addition to consulting with experts and performing a jurisdictional scan of other workers compensation boards and relevant industries. This research confirmed that a going concern methodology that values both assets and liabilities on a long-term, actuarial basis would be reasonable and appropriate for our organization.

O. Reg 141/12 currently does not permit the actuarial valuation of investment assets for the purposes of the Sufficiency Ratio. Accordingly, the WSIB has made a request for a regulation change to the Minister of Labour. Below, we describe our proposed measurement of assets for determining the Sufficiency Ratio as well as the ratios that result from the application of this adjusted methodology.

In accordance with IFRS, we value our investments using 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 propose amortizing investment gains and losses for the purposes of the Sufficiency Ratio 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. We expect a long-term return on investments of 6.0% over a rolling 10 to 15-year horizon.

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.

By using our proposed long-term going concern methodology for asset valuation as well as liabilities, the value of our investments would be $516 million lower than the market basis used in our consolidated financial statements. This difference would be amortized over a five-year period. By adopting our proposed methodology for calculating the Sufficiency Ratio as at March 31, 2013, we achieved the following results:

	Current Regulation	**Proposed Methodology**	**Variance**
Sufficiency Ratio	59.3%	57.7%	1.6%
Insurance Fund Ratio	60.6%	59.1%	1.5%
Employee Benefit Plans Ratio	76.5%	74.6%	1.9%

We look forward to reporting on the status of our request for regulatory change, as well as our results using both the existing and proposed alternate measurement for the Sufficiency Ratio.

4 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 Management's Discussion and Analysis in the first quarter 2013 Report to Stakeholders. The most significant risk factors affecting attainment of the legislated Sufficiency Ratios are presented below.

Business Risks

Investments

Our ability to meet our long-term obligations is dependent on the sufficiency of our investment fund. 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 our expected long-term rate of return of 6.0% over a horizon of rolling 10 to 15-year periods.

Our overarching risk mitigation tool is 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 their approval

Insurance Fund liabilities

The WSIB, as the trust agency for administering the Province's compensation system, must ensure there are adequate funds available to cover the cost of the WSIB's benefit obligations. Benefit liabilities, required to cover the ultimate benefits to be paid on reported and unreported claims, are calculated using sound actuarial practices to estimate costs based on a number of factors. (See Section 6 of Management's Discussion and Analysis in the first quarter 2013 Report to Stakeholders – Critical Accounting Estimates and Judgments).

Establishing an appropriate measurement of benefit liabilities is an inherently uncertain process that presents a number of risks that could adversely affect the sufficiency of the Insurance Fund.

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 government
- Unforeseen changes in the factors used to estimate 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
- By reviewing actuarial related matters at regular meetings with our Actuarial Advisory Committee and our Chief Statistician

Economic conditions and labour market changes

Given the WSIB's mandate to deliver a no-fault insurance plan, funded predominantly by premium revenues, the WSIB is inherently subject to economic risks. These economic risks include low or modest growth in the Province's employment levels, especially in covered industries, which may result in not meeting premium revenue targets as well as limiting work transition opportunities for injured workers. A number of trends highlight these economic risks:

- The growing shift in the job market toward non-traditional jobs, such as knowledge work, generally supplied by non-compulsorily covered firms may adversely affect premium revenue
- The trend toward casual, part-time and temporary work may result in return to work challenges and, therefore, higher claims costs
- A growing number of older workers in the workforce. If injured, they 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
- Continuous monitoring and researching the job market for available, sustainable positions for injured workers ready to return to the job market

Regulatory, political and other influences

Our business is subject to changing legal and regulatory influences. Any amendments to the WSIA or other legislation could require the WSIB to make adjustments to the benefit obligations. For example, changes in law or regulation can have an impact on the way we deliver services or the nature of the services themselves. This may require the dedication of WSIB resources to implement new systems or processes. 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 by law. Further, political, including stakeholder, influences may impact our ability to make timely changes to policy or operational programs and processes, or may introduce new changes not planned or contemplated by the WSIB.

We mitigate this risk by:

- Engaging with the Minister and the Ministry of Labour to understand the intent of any legislative or regulatory changes and to consult on the potential impact to outcomes and capacity
- Consulting with our stakeholder community during the planning and implementation of any legislative or regulatory changes, as well as WSIB program and policy changes
- Ensuring that any changes to existing policies and programs are developed and implemented in a timely and seamless manner and that they align with our value propositions and organizational capabilities

5 Definitions

A glossary of the terms utilized in this report

“Employee Benefit Plans” refers 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 according to IFRS and is expressed as a percentage.

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

"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" refers to the WSIB Employees' Pension Plan and other investors' proportionate interest of the net assets and comprehensive income of the WSIB's subsidiaries.

"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.

WORKPLACE SAFETY AND INSURANCE BOARD
Sufficiency Statement
(millions of Canadian dollars)

Sufficiency Ratio

	March 31, 2013	December 31, 2012
Sufficiency Ratio assets (note 3)	20,287	19,384
Less: Non-controlling interests	(2,188)	(2,103)
	18,099	17,281
Divided by: Sufficiency Ratio liabilities (note 3)	30,526	30,386
Sufficiency Ratio	**59.3%**	**56.9%**

Supplemental Ratios

Insurance Fund Ratio

	March 31, 2013	December 31, 2012
Insurance Fund assets (note 4)	20,287	19,384
Less: Non-controlling interests	(2,188)	(2,103)
	18,099	17,281
Divided by:		
Insurance Fund liabilities (note 4)	30,526	30,386
Less: Employee benefits plans liability, on the Sufficiency Ratio basis	(662)	(714)
	29,864	29,672
Insurance Fund Ratio	**60.6%**	**58.2%**

Employee Benefit Plans Ratio

	March 31, 2013	December 31, 2012
Employee Benefit Plans assets (note 5)	2,157	2,074
Divided by: Employee Benefit Plans liabilities (note 5)	2,819	2,788
Employee Benefit Plans Ratio	**76.5%**	**74.4%**

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

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Sufficiency Statement
(millions of Canadian dollars)

1 Governing regulation

Ontario Regulation 141/12 under the *Workplace Safety and Insurance Act (Ontario), 1997* (the "Regulation") came into force January 1, 2013. The Regulation requires the WSIB to report 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's assets at the reporting date, as determined by the WSIB in accordance with accepted accounting principles, by the value of the Insurance Fund liabilities at the reporting date, as determined by the WSIB's actuary in an actuarial valuation.

2 Calculation of the Sufficiency Ratio

The assets and liabilities presented in the WSIB's condensed interim consolidated statement of financial position prepared using accounting policies consistent with IFRS have been adjusted for the following items based on the Regulation, to derive the assets and liabilities used in the calculation of the Sufficiency Ratio.

Assets
Assets consist of the total assets presented in the WSIB's condensed interim consolidated financial statements.

Liabilities
Liabilities consist of the total liabilities presented in the WSIB's condensed interim consolidated financial statements adjusted to reflect the valuation of employee benefit obligations on a going concern rather than market basis.

Measurement of the Employee Benefit Plans liability for the purposes of the Sufficiency Ratio has 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 expected rate of return on plan assets. This basis differs from the accounting basis used in preparing the WSIB's condensed interim consolidated financial statements, which uses a discount rate of 3.95% (3.90% at December 31, 2012) 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 presented in the WSIB's condensed interim consolidated financial statements.

(millions of Canadian dollars)

3 Reconciliation of the Sufficiency Ratio assets and liabilities to the condensed interim consolidated financial statements

A reconciliation of the total assets and liabilities presented in our Sufficiency Statement to the condensed interim consolidated financial statements prepared in accordance with IFRS as at March 31, 2013 is provided below.

The funding ratio presented below is defined as total assets less non-controlling interests divided by total liabilities as presented in the WSIB's IFRS-based condensed interim consolidated financial statements.

	March 31, 2013			**December 31, 2012**		
	IFRS Basis	**Adjust-ments**	**Sufficiency Ratio Basis**	**IFRS Basis**	**Adjust-ments**	**Sufficiency Ratio Basis**
Assets						
Cash and cash equivalents	1,011	-	1,011	1,331	-	1,331
Receivables	1,077	-	1,077	1,009	-	1,009
Investments	18,038	-	18,038	16,880	-	16,880
Property and equipment	142	-	142	147	-	147
Intangible assets	19	-	19	17	-	17
Total assets	**20,287**	**-**	**20,287**	**19,384**	**-**	**19,384**
Liabilities						
Payables and accruals	954	-	954	1,038	-	1,038
Investment payables	60	-	60	38	-	38
Long-term debt	172	-	172	169	-	169
Loss of Retirement Income Fund liability	1,432	-	1,432	1,377	-	1,377
Employee Benefit Plans	1,594	(932)[b]	662	1,670	(956)[a]	714
Benefit liabilities	27,246	-	27,246	27,050	-	27,050
Total liabilities	**31,458**	**(932)**	**30,526**	**31,342**	**(956)**	**30,386**
Deficiency of assets						
Unfunded liability attributable to WSIB stakeholders	(13,359)	932[b]	(12,427)	(14,061)	956[a]	(13,105)
Non-controlling interests	2,188	-	2,188	2,103	-	2,103
Total deficiency of assets	**(11,171)**	**932**	**(10,239)**	**(11,958)**	**956**	**(11,002)**
Total liabilities and deficiency of assets	**20,287**	**-**	**20,287**	**19,384**	**-**	**19,384**
Funding Ratio	**57.5%**		**-**	55.1%		-
Sufficiency Ratio	**-**		**59.3%**	-		56.9%
Insurance Fund Ratio	**60.6%**		**60.6%**	58.2%		58.2%
Employee Benefit Plans Ratio	**57.5%**		**76.5%**	55.4%		74.4%

Notes:

a) Reflects 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. For the purposes of the condensed interim consolidated financial statements, a discount rate of 3.90% was used based on market yields on high quality corporate bonds (note 2). The condensed interim consolidated financial statements are restated for the revision to accounting standard IAS 19, Long-term Benefits, which came into effect January 1, 2013 and reflected an increase of $762 to the WSIB's employee benefits plans deficit.

b) Reflects 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. For the purposes of the condensed interim consolidated financial statements, a discount rate of 3.95% 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 the WSIB's assets to its liabilities 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 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 measurement of the assets of the Employee Benefit Plans is the amount disclosed in note 10 of the first quarter condensed interim consolidated financial statements. The measurement of the liabilities of the Employee Benefit Plans is determined 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.