

Workplace Safety and Insurance Board

## **Second Quarter 2022 Sufficiency Report**

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## Second Quarter 2022 Sufficiency Report

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**Second Quarter 2022 Sufficiency Report****Sufficiency Ratio Statement**

June 30, 2022

(millions of Canadian dollars)

**Sufficiency Ratio Statement**

	Note(s)	Jun. 30 2022	Dec. 31 2021
Total assets under IFRS	4	35,596	40,532
<i>Add (Less): Asset adjustments</i>	2,4	2,453	(2,403)
<i>Less: Sufficiency Ratio non-controlling interests</i>	2	(712)	(756)
Sufficiency Ratio assets	4	37,337	37,373
 Total liabilities under IFRS	 4	 32,532	 32,517
<i>Less: Liability adjustments</i>	3,4	(217)	(1,681)
Sufficiency Ratio liabilities	3,4	32,315	30,836
 <b>Sufficiency Ratio (assets divided by liabilities)</b>		<b>115.5%</b>	<b>121.2%</b>

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

## Second Quarter 2022 Sufficiency Report

### Notes to Sufficiency Ratio Statement

June 30, 2022

(millions of Canadian dollars)

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### 1. Governing regulation and Sufficiency Ratio calculation

*Ontario Regulation 141/12* under the WSIA came into force on January 1, 2013 and requires the WSIB to calculate a Sufficiency Ratio. Prior to January 1, 2022, *Ontario Regulation 141/12* required the WSIB to ensure the Sufficiency Ratio met prescribed levels by the following dates:

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

*Ontario Regulation 141/12* was amended by *Ontario Regulation 864/21* (collectively, the “Ontario Regulations”) effective January 1, 2022. The Ontario Regulations now specify the following:

- The criteria to be regarded in determining eligibility for a distribution of amounts to Schedule 1 employers;
- Discretion of amount of disbursements; and
- Timing of disbursements.

More specifically, should a decision be made to distribute surplus when the Sufficiency Ratio is above 115% and below 125%, any surplus distributions shall be distributed within 90 days of the WSIB determining that it will distribute a surplus to eligible Schedule 1 employers, with the amount of the distribution within the discretion of the WSIB.

Should the Sufficiency Ratio be equal to or above 125%, any surplus distributions shall be distributed to eligible Schedule 1 employers within 30 days of the WSIB determining the Sufficiency Ratio is equal to or above 125%, to return to a Sufficiency Ratio of 115.1%.

The Ontario Regulations state 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.

On February 10, 2022, the Board of Directors approved a rebate of surplus funds, up to \$1,500, to be distributed to eligible Schedule 1 employers within 90 days. As at June 30, 2022, a total of \$1,193 has been distributed to eligible businesses, and a reserve of \$74 has been recognized for possible adjustments to rebates of surplus funds. Substantially all surplus distributions are expected to be paid during the year ended December 31, 2022.

The details of the insurance fund assets, known as Sufficiency Ratio assets, are described in note 2 below. The insurance fund liabilities, known as Sufficiency Ratio liabilities, are described in note 3 below.

### 2. Sufficiency Ratio assets

Invested assets used in the Sufficiency Ratio calculation 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.

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As at June 30, 2022, the Sufficiency Ratio assets reflected an asset adjustment of \$2,453 (December 31, 2021 – \$2,403) 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 \$2,470 (December 31, 2021 – \$2,284), less the restricted cash balance of \$17 (December 31, 2021 – \$119), which consists of funds received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit program.

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

	Dec.31 2018	Dec.31 2019	Dec.31 2020	Dec.31 2021	Jun.30 2022
Fair value of invested assets	34,872	38,959	38,271	39,400	33,920
<i>Add (Less): Cash transfers in last month of period</i>	(33)	8	12	235	13
Adjusted fair value of invested assets <sup>1</sup>	34,839	38,967	38,283	39,635	33,933
<i>Less: Invested assets at expected rate of return<sup>2</sup></i>	36,807	36,324	38,658	37,329	38,926
Investment returns in excess of (lower than) expectations, <sup>3</sup> gain (loss)	(1,968)	2,643	(375)	2,306	(4,993)
<i>Add (Less): Unrecognized investment returns at prior period end</i>	1,720	(423)	1,686	849	2,284
<b>Total unrecognized investment gains (losses)</b>	<b>(248)</b>	<b>2,220</b>	<b>1,311</b>	<b>3,155</b>	<b>(2,709)</b>
Amount to be recognized from:					
2022 investment loss	-	-	-	-	(499)
2021 investment gain	-	-	-	461	230
2020 investment loss	-	-	(75)	(75)	(38)
2019 investment gain	-	528	529	529	264
2018 investment loss	(393)	(394)	(394)	(394)	(196)
2017 investment gain	351	351	350	350	-
2016 investment gain	52	52	52	-	-
2015 investment loss	(4)	(3)	-	-	-
2014 investment gain	169	-	-	-	-
<b><i>Less (Add): Total recognized investment gains (losses) in current period</i></b>	<b>175</b>	<b>534</b>	<b>462</b>	<b>871</b>	<b>(239)</b>
<b>Total unrecognized investment gains (losses) at end of period<sup>4</sup></b>	<b>(423)</b>	<b>1,686</b>	<b>849</b>	<b>2,284</b>	<b>(2,470)</b>

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	2018	2019	2020	2021	2022
Net long-term return objective, annualized	4.75%	4.75%	5.00%	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.

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### Notes to Sufficiency Ratio Statement

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(millions of Canadian dollars)

The amount of unrecognized investment returns to be recognized in future years is as follows:

Year earned	Total unrecognized gain (loss) as at Jun. 30, 2022	Investment returns to be recognized in future years:				
		Remainder of 2022	2023	2024	2025	2026
2022	(4,494)	500	998	999	998	999
2021	1,615	(231)	(462)	(461)	(461)	-
2020	(187)	37	75	75	-	-
2019	793	(264)	(529)	-	-	-
2018	(197)	197	-	-	-	-
	<b>(2,470)</b>	<b>239</b>	<b>82</b>	<b>613</b>	<b>537</b>	<b>999</b>

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

	Jun. 30 2022	Dec. 31 2021
Fair value of non-controlling interests	634	754
Add: Asset adjustment	78	2
<b>Sufficiency Ratio non-controlling interests</b>	<b>712</b>	<b>756</b>

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### Notes to Sufficiency Ratio Statement

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### 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, 2021 – 4.75%) per annum, as described in note 20 of the WSIB's 2021 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, 2021 – 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 5.05% (December 31, 2021 – 3.00%) 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 \$208 (December 31, 2021 – \$1,572).
- Payables and other liabilities were adjusted by \$9 (December 31, 2021 – \$109) to exclude the restricted cash of \$17 (December 31, 2021 – \$119) received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit program, which remains unpaid, and offset by a \$8 (December 31, 2021 – \$10) addback of the employer portion of contribution receivables related to the employee benefit plans liability as they are not part of the insurance fund.
- All other liabilities were determined in accordance with IFRS.

The Sufficiency Ratio liabilities are \$32,315 (December 31, 2021 – \$30,836), which includes the adjustment of \$217 (December 31, 2021 – \$1,681). Additional details of the breakdown of the liabilities are shown in note 4.

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### Notes to Sufficiency Ratio Statement

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#### 4. IFRS to Sufficiency Reconciliation

A reconciliation of the assets and liabilities used for the calculation of the Sufficiency Ratio to those under IFRS as at June 30, 2022 is provided below. The unaudited condensed interim consolidated statements of financial position presented on an IFRS basis are from the WSIB's unaudited condensed interim consolidated financial statements. Explanatory notes follow the reconciliation below.

	June 30, 2022			December 31, 2021		
	IFRS Basis	Adjustments	Sufficiency Ratio Basis	IFRS Basis	Adjustments	Sufficiency Ratio Basis
<b>Assets</b>						
Cash and cash equivalents	1,126	(17) <sup>1</sup>	1,109	681	(119) <sup>1</sup>	562
Receivables and other assets	739	-	739	698	-	698
Investments	33,476	2,470 <sup>2</sup>	35,946	38,867	(2,284) <sup>2</sup>	36,583
Property, equipment and intangible assets	255	-	255	286	-	286
<b>Total assets</b>	<b>35,596</b>	<b>2,453</b>	<b>38,049</b>	<b>40,532</b>	<b>(2,403)</b>	<b>38,129</b>
<b>Liabilities</b>						
Payables and other liabilities	1,319	(9) <sup>1,3</sup>	1,310	669	(109) <sup>1,3</sup>	560
Derivative liabilities	150	-	150	51	-	51
Long-term debt and lease liabilities	166	-	166	169	-	169
Loss of Retirement Income Fund liability	1,891	-	1,891	2,103	-	2,103
Employee benefit plans liability	882	(208) <sup>4</sup>	674	2,215	(1,572) <sup>4</sup>	643
Benefit liabilities	28,124	-	28,124	27,310	-	27,310
<b>Total liabilities</b>	<b>32,532</b>	<b>(217)</b>	<b>32,315</b>	<b>32,517</b>	<b>(1,681)</b>	<b>30,836</b>
<b>Net assets</b>						
Reserves	1,185	2,592	3,777	7,399	(724)	6,675
Accumulated other comprehensive income (loss)	1,245	-	1,245	(138)	-	(138)
<b>Net assets attributable to WSIB stakeholders</b>	<b>2,430</b>	<b>2,592</b>	<b>5,022</b>	<b>7,261</b>	<b>(724)</b>	<b>6,537</b>
Non-controlling interests	634	78 <sup>2</sup>	712	754	2 <sup>2</sup>	756
<b>Total net assets</b>	<b>3,064</b>	<b>2,670</b>	<b>5,734</b>	<b>8,015</b>	<b>(722)</b>	<b>7,293</b>
<b>Total liabilities and net assets</b>	<b>35,596</b>	<b>2,453</b>	<b>38,049</b>	<b>40,532</b>	<b>(2,403)</b>	<b>38,129</b>
<b>Sufficiency Ratio</b>	<b>115.5%</b>			<b>121.2%</b>		

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 the WSIB's invested assets shown on its unaudited condensed interim consolidated statements of financial position at the net long-term annual return objective of 5.00% (December 31, 2021 – 5.00%), resulting in an increase of \$2,470 (December 31, 2021 – decrease of \$2,284), which includes the increase of the interests in those assets held by third parties (non-controlling interests) of \$78 (December 31, 2021 – \$2).
3. Reflects the addback of the employer portion of contribution receivables related to the employee benefit plans liability as they are not part of the insurance fund.
4. Reflects the use of a going concern discount rate of 5.00% (December 31, 2021 – 5.00%) consistent with the net expected long-term annual rate of return on the pension plan assets. For the purposes of the unaudited condensed interim consolidated financial statements, an accounting weighted average discount rate of 5.05% was used as at June 30, 2022 (December 31, 2021 – 3.00%). The accounting discount rate was determined by reference to high-quality corporate bonds and the projected employee benefit payments from the various employee benefit plans.

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### 5. Subsequent event

#### Repurchase agreements

Starting in Q3 2022, the WSIB will implement a total portfolio leverage strategy whereby the WSIB can increase its market exposure on certain asset classes. The Investment Management Corporation of Ontario (“IMCO”) will be utilizing repurchase agreements, which represent short-term funding transactions where securities are sold and subsequently repurchased at a specified price on a specified date in the future. This creates leverage because the cash from the sale can be invested in other assets. The WSIB will retain economic exposure to changes in the value of the sold securities as well as any income from the sold securities. These transactions will be executed under master repurchase agreements and with counterparties with a credit rating of above “A” or equivalent, which will be monitored daily. In August 2022, IMCO started entering into these repurchase agreements on behalf of the WSIB. The WSIB is still assessing the impact of these transactions on its Sufficiency Ratio; however, the WSIB’s repurchase agreement activity is expected to represent a significant portion of the WSIB’s total investment portfolio by the end of the fiscal year.