

Workplace Safety and Insurance Board

Third Quarter 2022 Sufficiency Report

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Third Quarter 2022 Sufficiency Report

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Third Quarter 2022 Sufficiency Report**Sufficiency Ratio Statement****September 30, 2022****(millions of Canadian dollars)****Sufficiency Ratio Statement**

	Note(s)	Sep. 30 2022	Dec. 31 2021
Total assets under IFRS	4	36,325	40,532
<i>Add (Less): Asset adjustments</i>	2,4	2,689	(2,403)
<i>Less: Sufficiency Ratio non-controlling interests</i>	2	(715)	(756)
Sufficiency Ratio assets		38,299	37,373
 Total liabilities under IFRS	4	33,565	32,517
<i>Less: Liability adjustments</i>	3,4	(370)	(1,681)
Sufficiency Ratio liabilities		33,195	30,836
 Sufficiency Ratio (assets divided by liabilities)		115.4%	121.2%

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

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Notes to Sufficiency Ratio Statement

September 30, 2022

(millions of Canadian dollars)

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 September 30, 2022, a total of \$1,193 has been distributed to eligible businesses, and a reserve of \$53 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 September 30, 2022, the Sufficiency Ratio assets reflected a total asset increase of \$2,689 (December 31, 2021 – decrease of \$2,403) from assets reported under IFRS, comprised of the following:

- Investments reflect an increase of \$2,740 (December 31, 2021 – decrease of \$2,284) representing the cumulative unrecognized investment returns lower than (December 31, 2021 – in excess of) the expected long-term annual rate of return assumption, net of investment expenses; offset by
- A decrease of \$51 (December 31, 2021 – \$119) from cash and cash equivalents to exclude the restricted cash 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	Sep.30 2022
Fair value of invested assets	34,872	38,959	38,271	39,400	33,892
<i>Add (Less): Cash transfers in last month of period</i>	(33)	8	12	235	16
Adjusted fair value of invested assets ¹	34,839	38,967	38,283	39,635	33,908
<i>Less: Invested assets at expected rate of return²</i>	36,807	36,324	38,658	37,329	39,358
Investment returns in excess of (lower than) expectations, ³ gain (loss)	(1,968)	2,643	(375)	2,306	(5,450)
<i>Add (Less): Unrecognized investment returns at prior period end</i>	1,720	(423)	1,686	849	2,284
Total unrecognized investment gains (losses)	(248)	2,220	1,311	3,155	(3,166)
Amount to be recognized from:					
2022 investment loss	-	-	-	-	(817)
2021 investment gain	-	-	-	461	346
2020 investment loss	-	-	(75)	(75)	(57)
2019 investment gain	-	528	529	529	397
2018 investment loss	(393)	(394)	(394)	(394)	(295)
2017 investment gain	351	351	350	350	-
2016 investment gain	52	52	52	-	-
2015 investment loss	(4)	(3)	-	-	-
2014 investment gain	169	-	-	-	-
<i>Less: Total recognized investment gains (losses) in current period</i>	175	534	462	871	(426)
Total unrecognized investment gains (losses) at end of period⁴	(423)	1,686	849	2,284	(2,740)

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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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 gain (loss) as at Sep. 30, 2022	Remainder of				
		2022	2023	2024	2025	2026
2022	(4,633)	273	1,090	1,090	1,090	1,090
2021	1,499	(115)	(462)	(461)	(461)	-
2020	(168)	18	75	75	-	-
2019	660	(131)	(529)	-	-	-
2018	(98)	98	-	-	-	-
	(2,740)	143	174	704	629	1,090

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

	Sep. 30 2022	Dec. 31 2021
Fair value of non-controlling interests	632	754
<i>Add: Asset adjustment</i>	83	2
Sufficiency Ratio non-controlling interests	715	756

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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 4.95% (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 \$325 (December 31, 2021 – \$1,572).
- Payables and other liabilities were adjusted by \$45 (December 31, 2021 – \$109) to exclude the restricted cash of \$51 (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 \$6 (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 \$33,195 (December 31, 2021 – \$30,836), which includes the adjustment of \$370 (December 31, 2021 – \$1,681). Additional details of the breakdown of the liabilities are shown in note 4.

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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 September 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.

	September 30, 2022			December 31, 2021		
	IFRS Basis	Adjustments	Sufficiency Ratio Basis	IFRS Basis	Adjustments	Sufficiency Ratio Basis
Assets						
Cash and cash equivalents	817	(51) ¹	766	681	(119) ¹	562
Receivables and other assets	806	-	806	698	-	698
Investments	34,462	2,740 ²	37,202	38,867	(2,284) ²	36,583
Property, equipment and intangible assets	240	-	240	286	-	286
Total assets	36,325	2,689	39,014	40,532	(2,403)	38,129
Liabilities						
Payables and other liabilities	1,151	(45) ^{1,3}	1,106	669	(109) ^{1,3}	560
Derivative liabilities	438	-	438	51	-	51
Securities sold under repurchase agreements	713	-	713	-	-	-
Long-term debt and lease liabilities	164	-	164	169	-	169
Loss of Retirement Income Fund liability	1,866	-	1,866	2,103	-	2,103
Employee benefit plans liability	1,171	(325) ⁴	846	2,215	(1,572) ⁴	643
Benefit liabilities	28,062	-	28,062	27,310	-	27,310
Total liabilities	33,565	(370)	33,195	32,517	(1,681)	30,836
Net assets						
Reserves	1,068	2,976	4,044	7,399	(724)	6,675
Accumulated other comprehensive income (loss)	1,060	-	1,060	(138)	-	(138)
Net assets attributable to WSIB stakeholders	2,128	2,976	5,104	7,261	(724)	6,537
Non-controlling interests	632	83 ²	715	754	2 ²	756
Total net assets	2,760	3,059	5,819	8,015	(722)	7,293
Total liabilities and net assets	36,325	2,689	39,014	40,532	(2,403)	38,129
Sufficiency Ratio			115.4%			121.2%

- 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.
- 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 \$2,740 (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 \$83 (December 31, 2021 – \$2).
- 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.
- 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 4.95% was used as at September 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.