Workplace Safety and Insurance Board

# Third Quarter **2023** Sufficiency Report

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# **Third** Quarter **2023** Sufficiency Report

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**September 30, 2023**
**(millions of Canadian dollars)**

## Sufficiency Ratio Statement

| | Note(s) | September 30 2023 | December 31 2022 *restated* |
|---|---|---|---|
| Total assets under IFRS | 1,4 | 36,643 | 35,889 |
| *Add*: Asset adjustments | 2,4 | 3,202 | 2,860 |
| *Less*: Sufficiency Ratio non-controlling interests | 2 | (309) | (463) |
| Sufficiency Ratio assets | | 39,536 | 38,286 |
| Total liabilities under IFRS | 1,4 | 30,408 | 31,174 |
| *Add*: Liability adjustments | 3,4 | 3,089 | 1,219 |
| Sufficiency Ratio liabilities | | 33,497 | 32,393 |
| **Sufficiency Ratio (assets divided by liabilities)** | | **118.0%** | **118.2%** |

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

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## 1. Governing regulation and Sufficiency Ratio calculation

*Ontario Regulation 141/12* under the *Workplace Safety and Insurance Act, 1997 (Ontario)* came into force on January 1, 2013 and requires the Workplace Safety and Insurance Board (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.

The WSIB's Sufficiency Ratio has not been impacted significantly upon the adoption of IFRS 17 *Insurance contracts* ("IFRS 17") and IFRS 9 *Financial Instruments* ("IFRS 9") as the Sufficiency Ratio is prescribed by the Ontario Regulations and is based on accepted actuarial practice for going concern valuations.

**Impact of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments***

Effective January 1, 2023, the WSIB has adopted IFRS 17 in its unaudited condensed interim consolidated financial statements for the period ended September 30, 2023. IFRS 17 replaces the guidance in IFRS 4 *Insurance Contracts* and establishes a comprehensive principles-based framework for the recognition, measurement and presentation of insurance contracts for annual periods beginning on or after January 1, 2023. The adoption of IFRS 17 has a significant impact on the WSIB's unaudited condensed interim consolidated financial statements. Refer to note 4 of the WSIB's unaudited condensed interim consolidated financial statements for the period ended September 30, 2023 for further details.

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The table below reconciles the WSIB's assets and liabilities as previously reported in the WSIB's Annual Sufficiency Report as of December 31, 2022 to the balances under IFRS 17 which form the starting point of the Sufficiency Ratio statement above.

| | **Dec.31 2022** |
|---|---|
| Total assets under IFRS 4, as previously reported | 36,351 |
| Impact of IFRS 17 - Reclassification of insurance related receivables to Insurance contract liabilities | (462) |
| **Total assets under IFRS 17** | **35,889** |

| | **Dec.31 2022** |
|---|---|
| Total liabilities under IFRS 4, as previously reported | 32,728 |
| Impact of IFRS 17 - Reclassification of insurance related receivables to insurance contract liabilities | (462) |
| Impact of IFRS 17 - Change in Insurance contract liabilities[1] due to new methodology | (1,092) |
| **Total liabilities under IFRS 17** | **31,174** |

1. Previously reported as benefit liabilities.

Effective January 1, 2023, the WSIB has also adopted IFRS 9 in its unaudited condensed interim consolidated financial statements for the period ended September 30, 2023. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* and includes guidance on the classification and measurement of financial instruments, impairment of financial assets, and hedge accounting for annual periods beginning on or after January 1, 2023. The adoption of IFRS 9 does not have a significant impact on the WSIB’s unaudited condensed interim consolidated financial statements. Refer to note 4 of the WSIB’s unaudited condensed interim consolidated financial statements for the period ended September 30, 2023 for further details.

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 long-term annualized return objective are deferred and recognized over the next five years on a straight-line basis. After five years, those past investment gains and losses are fully recognized in the asset value. This procedure moderates the effect of investment market return volatility and is known as the asset adjustment.

As at September 30, 2023, the Sufficiency Ratio assets reflected a total asset increase of $3,202 (December 31, 2022 – $2,860) from assets reported under IFRS, comprised of the following:

- Investments reflect an increase of $2,699 (December 31, 2022 – $2,422) representing the cumulative unrecognized investment returns lower than the long-term annualized return objective, net of investment expenses; offset by
- A decrease of $40 (December 31, 2022 – $24) 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; and
- An increase of $543 (December 31, 2022 – $462) from receivables and other assets to add back the insurance related receivables that were reclassified to insurance contract liabilities upon transition to

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IFRS 17 effective January 1, 2023. Under IFRS 17, all insurance related receivables are presented with insurance contract liabilities. However, since the Sufficiency Ratio is determined using methods and assumptions that are consistent with accepted actuarial practice for going concern valuations and there was minimal impact upon the adoption of IFRS 17, these amounts are presented as part of Receivables and other assets.

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

| | Dec.31 2019 | Dec.31 2020 | Dec.31 2021 | Dec.31 2022 | Sep.30 2023 |
|---|---|---|---|---|---|
| Fair value of invested assets | 38,959 | 38,271 | 39,400 | 34,235 | 34,174 |
| *Add*: Cash transfers in last month of period | 8 | 12 | 235 | 311 | 340 |
| Adjusted fair value of invested assets[1] | 38,967 | 38,283 | 39,635 | 34,546 | 34,514 |
| *Less:* Invested assets at rate of return objective[2] | 36,324 | 38,658 | 37,329 | 39,777 | 34,956 |
| Investment returns in excess of (lower than) objective[3], gain (loss) | 2,643 | (375) | 2,306 | (5,231) | (442) |
| *Add (Less):* Unrecognized investment returns at prior period end | (423) | 1,686 | 849 | 2,284 | (2,422) |
| **Total unrecognized investment gains (losses)** | **2,220** | **1,311** | **3,155** | **(2,947)** | **(2,864)** |
| Amount to be recognized from: | | | | | |
| 2023 investment loss | - | - | - | - | (66) |
| 2022 investment loss | - | - | - | (1,046) | (785) |
| 2021 investment gain | - | - | 461 | 461 | 346 |
| 2020 investment loss | - | (75) | (75) | (75) | (57) |
| 2019 investment gain | 528 | 529 | 529 | 528 | 397 |
| 2018 investment loss | (394) | (394) | (394) | (393) | - |
| 2017 investment gain | 351 | 350 | 350 | - | - |
| 2016 investment gain | 52 | 52 | - | - | - |
| 2015 investment loss | (3) | - | - | - | - |
| ***Less:* Total recognized investment gains (losses) in current period** | **534** | **462** | **871** | **(525)** | **(165)** |
| **Total unrecognized investment gains (losses) at end of period[4]** | **1,686** | **849** | **2,284** | **(2,422)** | **(2,699)** |

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 the net long-term annualized return objective 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 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Net long-term return objective, annualized | 4.75% | 5.00% | 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, 2023** | **Remainder of 2023** | **2024** | **2025** | **2026** | **2027** |
| 2023 | (376) | 22 | 89 | 88 | 89 | 88 |
| 2022 | (3,400) | 261 | 1,047 | 1,046 | 1,046 | - |
| 2021 | 1,038 | (116) | (461) | (461) | - | - |
| 2020 | (93) | 18 | 75 | - | - | - |
| 2019 | 132 | (132) | - | - | - | - |
| | **(2,699)** | **53** | **750** | **673** | **1,135** | **88** |

A similar asset adjustment is applied on the non-controlling interests as follows:

| | **September 30 2023** | **December 31 2022** |
|---|---|---|
| Fair value of non-controlling interests | 259 | 402 |
| *Add*: Asset adjustment | 50 | 61 |
| **Sufficiency Ratio non-controlling interests** | **309** | **463** |

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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, presented as part of insurance contract liabilities, were calculated by an actuarial valuation with a discount rate of 4.75% (December 31, 2022 – 4.75%) per annum, using methods and assumptions that are consistent with accepted actuarial practice for going concern valuations. Prior to the adoption of IFRS 17, the basis for valuing benefit liabilities for the purposes of determining the Sufficiency Ratio ("Sufficiency basis") was consistent with the methodology for determining benefit liabilities under IFRS 4 ("IFRS basis"). However, upon the adoption of IFRS 17 effective January 1, 2023, the Sufficiency basis differs from the IFRS basis. The valuation under the Sufficiency basis continues to be based on accepted actuarial practices for going concern valuations. The valuation under IFRS 17 is based on a new methodology which reflects the liability characteristics of the WSIB's insurance contracts and early recognition of losses due to onerous contracts. Refer to note 4 of the WSIB's unaudited condensed interim consolidated financial statements for the period ended September 30, 2023 for details on the IFRS basis.
- 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 5.10% (December 31, 2022 – 5.10%) per annum. This differs from the IFRS basis used in preparing the WSIB's unaudited condensed interim consolidated financial statements. The IFRS discount rate, a weighted average of 5.65% (December 31, 2022 – 5.05%) per annum, was determined by reference to high-quality corporate bonds and the projected employee benefit payment cash flows. The result was an increase from the IFRS obligations equal to $53 (December 31, 2022 – reduction of $320).
- Payables and other liabilities were adjusted by $455 (December 31, 2022 – $616) to:
    - Exclude the restricted cash of $40 (December 31, 2022 – $24) received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit program, which remains unpaid;
    - Offset by a $7 (December 31, 2022 – $9) add back of the employer portion of contribution receivables related to the employee benefit plans liability as they are not part of the insurance fund; and
    - Add back $488 (December 31, 2022 – $631) of insurance related payables that were reclassified to Insurance contract liabilities upon transition to IFRS 17 effective January 1, 2023. Under IFRS 17, all insurance related payables are presented with Insurance contract liabilities. However, since the Sufficiency Ratio is determined using methods and assumptions that are consistent with accepted actuarial practice for going concern valuations and there was minimal impact upon the adoption of IFRS 17, these amounts are presented as part of Payables and other assets.
- All other liabilities were determined in accordance with IFRS.

The Sufficiency Ratio liabilities are $33,497 (December 31, 2022 – $32,393), which includes the total liabilities adjustment of $3,089 (December 31, 2022 – $1,219). 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, 2023 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, 2023 | | | December 31, 2022 *restated* | | |
|---|---|---|---|---|---|---|
| | **IFRS Basis** | **Adjust-ments** | **Sufficiency Ratio Basis** | **IFRS Basis** | **Adjust-ments** | **Sufficiency Ratio Basis** |
| **Assets** | | | | | | |
| Cash and cash equivalents | 791 | (40)[1] | 751 | 664 | (24)[1] | 640 |
| Receivables and other assets | 482 | 543 [2] | 1,025 | 296 | 462 [2] | 758 |
| Investments | 35,129 | 2,699 [3] | 37,828 | 34,701 | 2,422 [3] | 37,123 |
| Property, equipment and intangible assets | 241 | - | 241 | 228 | - | 228 |
| **Total assets** | **36,643** | **3,202** | **39,845** | **35,889** | **2,860** | **38,749** |
| **Liabilities** | | | | | | |
| Payables and other liabilities | 592 | 455 [1,4,5] | 1,047 | 333 | 616 [1,4,5] | 949 |
| Derivative liabilities | 13 | - | 13 | 59 | - | 59 |
| Securities sold under repurchase agreements | 1,587 | - | 1,587 | 1,082 | - | 1,082 |
| Long-term debt and lease liabilities | 161 | - | 161 | 162 | - | 162 |
| Loss of Retirement Income Fund liability | 1,847 | - | 1,847 | 1,874 | - | 1,874 |
| Employee benefit plans liability | 724 | 53 [6] | 777 | 1,017 | (320)[6] | 697 |
| Insurance contract liabilities | 25,484 | 2,581 [7] | 28,065 | 26,647 | 923 [7] | 27,570 |
| **Total liabilities** | **30,408** | **3,089** | **33,497** | **31,174** | **1,219** | **32,393** |
| **Net assets** | | | | | | |
| Reserves | 4,386 | 63 | 4,449 | 3,036 | 1,580 | 4,616 |
| Accumulated other comprehensive income | 1,590 | - | 1,590 | 1,277 | - | 1,277 |
| **Net assets attributable to WSIB stakeholders** | **5,976** | **63** | **6,039** | **4,313** | **1,580** | **5,893** |
| Non-controlling interests | 259 | 50 [3] | 309 | 402 | 61 [3] | 463 |
| **Total net assets** | **6,235** | **113** | **6,348** | **4,715** | **1,641** | **6,356** |
| **Total liabilities and net assets** | **36,643** | **3,202** | **39,845** | **35,889** | **2,860** | **38,749** |
| **Sufficiency Ratio** | | | **118.0%** | | | **118.2%** |

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 add back of insurance related receivables that were reclassified to insurance contract liabilities upon transition to IFRS 17.
3. 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, 2022 – 5.00%), resulting in an increase of $2,699 (December 31, 2022 – $2,422), which includes the increase of the interests in those assets held by third parties (non-controlling interests) of $50 (December 31, 2022 – $61).
4. Reflects the add back of the employer portion of contribution receivables related to the employee benefit plans liability as they are not part of the insurance fund.
5. Reflects the add back of insurance related payables that were reclassified to insurance contract liabilities upon transition to IFRS 17.
6. Reflects the use of a going concern discount rate of 5.10% (December 31, 2022 – 5.10%). For the purposes of the unaudited condensed interim consolidated financial statements, an accounting weighted average discount rate of 5.65% was used as at September 30, 2023 (December 31, 2022 – 5.05%). The accounting discount rate was determined by reference to high-

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quality corporate bonds and the projected employee benefit payments from the various employee benefit plans.

7. For the purposes of the unaudited condensed interim consolidated financial statements, the accounting valuation is based on a new methodology prescribed by IFRS 17, which reflects the liability characteristics of the WSIB's insurance contracts and early recognition of losses due to onerous contracts. The accounting discount rate was determined by reference to current bond yields. The valuation under the Sufficiency basis continues to be based on accepted actuarial practice for going concern valuations which reflects the use of a discount rate of 4.75% (December 31, 2022 – 4.75%). Therefore, this adjustment reflects the liability adjustment to determine the WSIB's insurance contract liabilities under the Sufficiency basis.