Workplace Safety and Insurance Board

Third Quarter **2024** Sufficiency Report

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September 30, 2024
(millions of Canadian dollars)

Sufficiency Ratio Statement

	Note(s)	September 30 2024	December 31 2023
Total assets under IFRS	1,2	41,303	38,164
Add: Asset adjustments	2,3	116	1,846
Less: Sufficiency Ratio non-controlling interests	3	(274)	(294)
Sufficiency Ratio assets		41,145	39,716
Total liabilities under IFRS	1,2	33,773	33,050
Less: Liability adjustments	2,4	(430)	(637)
Sufficiency Ratio liabilities		33,343	32,413
Sufficiency Ratio (assets divided by liabilities)		**123.4%**	**122.5%**

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* (the “WSIA”) came into force on January 1, 2013 and requires the Workplace Safety and Insurance Board (the “WSIB”) to achieve a Sufficiency Ratio of 100% by 2027. Having achieved a Sufficiency Ratio of over 100% in 2018, *Ontario Regulation 141/12* was amended by *Ontario Regulation 864/21* (collectively, the “Ontario Regulations”) effective January 1, 2022 as follows:

- 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 WSIB uses the annual audited Sufficiency Statement in making this assessment.

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 details of the insurance fund assets, known as Sufficiency Ratio assets, are described in note 3 below. The insurance fund liabilities, known as Sufficiency Ratio liabilities, are described in note 4 below.

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2. 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, 2024 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, 2024			December 31, 2023		
	Note	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis	IFRS Basis	Adjust-ments	Sufficiency Ratio Basis
Assets							
Cash and cash equivalents	3	325	(6)	319	335	(33)	302
Receivables and other assets	3	955	495	1,450	440	450	890
Investments	3	39,647	(373)	39,274	37,149	1,429	38,578
Securities purchased under resale agreements		191	-	191	-	-	-
Property, equipment and intangible assets		185	-	185	240	-	240
Total assets		**41,303**	**116**	**41,419**	**38,164**	**1,846**	**40,010**
Liabilities							
Payables and other liabilities	4	429	328	757	305	382	687
Derivative liabilities		53	-	53	24	-	24
Securities sold under repurchase agreements		2,390	-	2,390	1,751	-	1,751
Long-term debt and lease liabilities		94	-	94	159	-	159
Loss of Retirement Income Fund liability		1,931	-	1,931	1,898	-	1,898
Employee benefit plans liability	4	979	(249)	730	1,193	(479)	714
Insurance contract liabilities	4	27,897	(509)	27,388	27,720	(540)	27,180
Total liabilities		**33,773**	**(430)**	**33,343**	**33,050**	**(637)**	**32,413**
Net assets							
Reserves		5,933	521	6,454	3,792	2,440	6,232
Accumulated other comprehensive income		1,348	-	1,348	1,071	-	1,071
Net assets attributable to WSIB stakeholders		**7,281**	**521**	**7,802**	**4,863**	**2,440**	**7,303**
Non-controlling interests		249	25	274	251	43	294
Total net assets		**7,530**	**546**	**8,076**	**5,114**	**2,483**	**7,597**
Total liabilities and net assets		**41,303**	**116**	**41,419**	**38,164**	**1,846**	**40,010**
Sufficiency Ratio				**123.4%**			**122.5%**

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3. Sufficiency Ratio assets

Assets for the purposes of the Sufficiency Ratio calculation consist of the total assets of the WSIB (net of certain adjustments[1]) less the interests in those assets held by third parties (non-controlling interests). The deduction of assets held by third parties is necessary as the total assets include portions of investments to which third parties ultimately have rights (for example, the assets of the Employees' Pension Plan) and therefore would not be appropriate to include in the Sufficiency Ratio assets.

Summary of material accounting policy information — assets

Investments 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, 2024, the Sufficiency Ratio assets reflected a total addition of $116 (December 31, 2023 – $1,846) from assets reported under IFRS, comprised of the following:

- A reduction of $6 (December 31, 2023 – $33) 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.
- An addition of $495 (December 31, 2023 – $450) from receivables and other assets consisting of the add back of the insurance related receivables that were reclassified to insurance contract liabilities upon transition to IFRS 17 *Insurance Contracts* ("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, these amounts are presented as part of receivables and other assets.
- A reduction of $373 (December 31, 2023 – addition of $1,429) to investments representing the cumulative unrecognized investment returns higher than the long-term annualized return objective for the insurance fund, net of investment expenses. Please see table below that outlines how this investment adjustment is calculated.

[1] For the period beginning on or after January 1, 2024, the Loss of Retirement ("LRI") Income Fund investment assets and related returns are excluded from the asset adjustments in the Sufficiency Ratio calculation. This change to the calculation of the Sufficiency Ratio was applied prospectively.

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

	Dec.31 2020	Dec.31 2021	Dec.31 2022	Dec.31 2023	Sep.30 2024
Fair value of invested assets under IFRS[1]	38,271	39,400	34,235	35,869	36,258
Add: Cash transfers in last month of period	12	235	311	142	145
Adjusted fair value of invested assets[2]	38,283	39,635	34,546	36,011	36,403
Less: Invested assets at rate of return objective[1,3]	38,658	37,329	39,777	34,934	34,900
Investment returns in excess of (lower than) objective,[4] gain (loss)	(375)	2,306	(5,231)	1,077	1,503
Add (Less): Unrecognized investment returns at prior period end	1,686	849	2,284	(2,422)	(1,429)
Total unrecognized investment gains (losses)	**1,311**	**3,155**	**(2,947)**	**(1,345)**	**74**
Amount recognized from:					
2024 investment gain	-	-	-	-	225
2023 investment gain	-	-	-	215	120
2022 investment loss	-	-	(1,046)	(1,047)	(930)
2021 investment gain	-	461	461	462	347
2020 investment loss	(75)	(75)	(75)	(75)	(61)
2019 investment gain	529	529	528	529	-
2018 investment loss	(394)	(394)	(393)	-	-
2017 investment gain	350	350	-	-	-
2016 investment gain	52	-	-	-	-
***Less:* Total recognized investment gains (losses) in current period[1]**	**462**	**871**	**(525)**	**84**	**(299)**
Total unrecognized investment gains (losses) at end of period[5]	**849**	**2,284**	**(2,422)**	**(1,429)**	**373**

1. Beginning January 1, 2024, LRI assets and related returns are no longer included in the asset adjustments of the Sufficiency Ratio calculation. The Sufficiency Ratio calculation as at December 31, 2023 included cumulative unamortized net losses of $263 related to LRI assets. These unamortized losses have been fully recognized in the Sufficiency Ratio calculation as at March 31, 2024. Excluding the LRI assets from the asset adjustments would have reduced the Sufficiency Ratio at December 31, 2023 by 0.8%.
2. 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.
3. Invested assets at rate of return objective 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	2020	2021	2022	2023	2024
Net long-term return objective, annualized	5.00%	5.00%	5.00%	5.00%	5.25%

4. Calculated as the difference between the invested assets at rate of return objective and actual fair value of invested assets, representing the unrecognized investment returns above (below) the net long-term return objective.
5. 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 gains (losses) as at Sep. 30, 2024**	**Remainder of 2024**	**2025**	**2026**	**2027**	**2028**
2024	1,278	(75)	(301)	(301)	(301)	(300)
2023	742	(57)	(228)	(228)	(229)	-
2022	(2,208)	245	981	982	-	-
2021	575	(115)	(460)	-	-	-
2020	(14)	14	-	-	-	-
	373	**12**	**(8)**	**453**	**(530)**	**(300)**

A similar asset adjustment is applied on the non-controlling interests, which is deducted from the assets for Sufficiency Ratio purposes:

	September 30 2024	**December 31 2023**
Fair value of non-controlling interests	249	251
Add: Asset adjustment	25	43
Sufficiency Ratio non-controlling interests	**274**	**294**

4. Sufficiency Ratio liabilities

Liabilities for the purposes of the Sufficiency Ratio calculation include all liabilities as shown in the unaudited condensed interim consolidated statements and adjusted as discussed below.

Summary of material accounting policy information — liabilities

As at September 30, 2024, the Sufficiency Ratio liabilities are $33,343 (December 31, 2023 – $32,413), which includes a reduction of $430 to the total IFRS liabilities (December 31, 2023 – $637). The Sufficiency Ratio liabilities were prepared under a going concern basis and were calculated as follows:

- Payables and other liabilities reflect an addition of $328 (December 31, 2023 – $382) from the IFRS basis, due to the following:
    - Add back of $7 (December 31, 2023 – $15) of the employer portion of contribution receivables related to the employee benefit plans liability as they are not part of the insurance fund;
    - Add back of $327 (December 31, 2023 – $400) 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, these amounts are presented as part of payables and other assets;

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- Elimination of the restricted cash of $6 (December 31, 2023 – $33) received from the Government of Ontario for the purpose of administering the COVID-19 Worker Income Protection Benefit Program, which remains unpaid.

- 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, 2023 – 5.10%) per annum. It is based on the expected return on pension plan assets less any explicit margins. 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 4.70% (December 31, 2023 – 4.65%) 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 $249 (December 31, 2023 – $479).
- Liabilities for incurred claims, presented as part of insurance contract liabilities, were calculated by an actuarial valuation with a discount rate of 5.00% (December 31, 2023 – 5.00%) per annum, using methods and assumptions that are consistent with accepted actuarial practice for going concern valuations. 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, was calculated with a single equivalent discount rate of 4.77% (December 31, 2023 – 4.86%) per annum which reflects the liability characteristics of the WSIB's insurance contracts and early recognition of losses due to onerous contracts. The valuation difference results in a reduction of insurance contract liabilities equal to $509 when compared to insurance contract liabilities under IFRS basis (December 31, 2023 – $540).
- All other liabilities were determined in accordance with IFRS.

5. Subsequent events

On November 15, 2024, the WSIB's Board of Directors approved a distribution of surplus funds of $2 billion to eligible Schedule 1 businesses. The WSIB's strong financial and operational management, along with its positive investment returns have led to a Sufficiency Ratio of 123.4% as of September 30, 2024, and resulting in a surplus in its insurance fund beyond the needed reserve. The surplus distribution is expected to be applied to eligible businesses' accounts in February 2025.