WORKPLACE SAFETY AND INSURANCE BOARD

2010
First Quarter Report to Stakeholders

For the Quarter Ended
March 31, 2010

Workplace Safety & Insurance Board
Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction

Management's discussion and analysis (MD&A) commentary is as of the end of the first quarter 2010. This unaudited quarterly report is prepared in accordance with Canadian generally accepted accounting principles (GAAP). The MD&A should be read in conjunction with the audited consolidated financial statements.

The information in the MD&A necessarily includes amounts based on informed judgments and estimates. Forward-looking statements contained in this discussion represent management's expectations, estimates, and projections regarding future events based on the information currently available, involving assumptions, inherent risks, and uncertainties. Readers are cautioned that actual results in the future may differ materially from projections in cases where future events and circumstances do not occur as expected.

Financial Results

First quarter 2010 revenues fell short of total benefit costs and other expenses by $179 million, an $814 million improvement when compared with the $993 million shortfall incurred in the first quarter 2009. This favourable improvement was mainly attributable to improved investment returns, partially offset by a decrease in premium revenue and an increase in benefit costs. Overall, the unfunded liability rose slightly in first quarter 2010 to $12,007 million from $11,751 million at December 31, 2009.

Unfunded Liability

The existence of an unfunded liability is the result of a complex set of interactions among at least four key levers: the rate set for premiums, the extent of coverage of the workforce, the level of benefits paid, and the amount earned on investments. The unfunded liability stood at $12,007 million at the end of March 2010 compared with $11,751 million at the end of 2009. The funding ratio remained relatively unchanged at 54.0 per cent at the end of the first quarter 2010 compared with 54.2 per cent at the end of December 31, 2009.

The unfunded liability will continue to rise in the near term. Approximately 70 per cent of the current claims inventory represents locked-in claims which may continue for extended periods, reflecting prior legislation for lifetime benefits. The post 1998 loss of earnings inventory of claims is expected to increase until these claims occurrences mature, plateau and begin to be offset by claims terminations.

The total comprehensive loss at March 31, 2010 is $256 million compared with a total comprehensive loss of $911 million for the same period in 2009.

Investment Revenue

Despite an uncertain start to 2010, financial markets rebounded mid-quarter to end March 31, 2010 in positive territory. The WSIB's investment revenue is $319 million in the first quarter 2010 along with $77 in unrealized losses compared with an investment loss of $608 million plus $82 million in unrealized gains for the same period in 2009 (see Note 3 Investment and Investment Revenue for details). As a result, investment revenue improved by $927 million while unrealized losses increased by $159 million.

Year-to-date returns for the Insurance Fund at March 31, 2010 are 2.0 per cent compared with negative 4.3 per cent at March 31, 2009. Total Fund returns reflect a combination of positive returns in equities and total return strategies while real estate and bonds generated modest returns.

Many significant events occurred during the first quarter 2010 including, sovereign debt problems, proposed new banking regulations and the tightening of monetary policy in China. Global equity market returns were positive for the quarter as February and March positive returns offset a negative start to the year in January. All major equity market regions had fairly robust returns; however the strength of the Canadian dollar significantly reduced or even converted these positive returns to negative returns. WSIB's currency hedging program mitigated a significant portion of these reductions. Financial, Consumer, and Industrials were the strongest sectors, while Energy was the only negative. Recent data show that the Canadian economy is responding well to government stimulus, and the time is near where monetary policy will need to be tightened. This timing is well ahead of that in the US.

Looking forward, the global economy should continue to improve but growth will not be uniform across all regions. The outlook remains uncertain for how the European recovery will progress as Greece's sovereign debt crisis has revealed possible weakness in the structure of the eurozone. Developed countries face a delicate balancing act. There is growing pressure on high-deficit nations to rein in spending, but it is necessary to maintain sufficient fiscal support in order to prevent a relapse into recession.

Premium Revenue

Premium revenue was $852 million in the first quarter 2010 compared with $887 million for the same period in 2009, a decrease of $35 million. This decrease is mainly the result of the continued economic impact on Ontario industries including the Automotive and Manufacturing sectors that are experiencing employment level decreases. Declining employment levels serve to reduce insurable payrolls, thereby directly impacting on the WSIB's premium revenue.

A decrease in bad debts offset lower gross premiums by $11.4 million. Bad debts were $15.9 million in the first quarter 2010 compared with $27.3 million in the first quarter 2009.

Benefit Costs and Benefit Liabilities

Benefit costs were $1,207 million in the first quarter 2010 compared with $1,177 million in the first quarter 2009, an increase of $30 million. This increase relates primarily to the change in the benefit liabilities for the quarter.

In the first quarter 2010, benefit liabilities increased $258 million from December 31, 2009. The main reasons for this increase include assumption changes for the proportion of loss of earnings claims at longer durations.

While reported lost-time injuries have gone down, the more serious types of injuries are still occurring. As well the trend for duration, that is percentage of injured workers who are still on benefits, is increasing while reduced employment levels are reducing re-employment opportunities. Going forward, this will be an area of focus for the WSIB.

The workers compensation system is highly complex, with trends and unintended effects taking years, in many cases, to become evident. The WSIB will continue to focus on working collaboratively with injured workers and employers to promote prevention efforts, keep duration levels down and to restore injured workers back to health and back to work safely, thereby avoiding high benefit and health-care costs.

Outlook

The downturn in global economic markets continues to adversely affect the WSIB. Though the economy is beginning to stabilize, the longer-term economic outlook remains cautious. Improvements to the factors that affect the WSIB, such as the expansion of employment opportunities and growth in the insurable payrolls of business segments covered by the WSIB, tend to lag the reported economic recovery. The need for the WSIB's services will likely increase until the recovery is firmly entrenched and employment numbers for covered industry segments reach pre-2008 levels. The unfunded liability will continue to rise in the near term as a result of these factors. Reduction of the unfunded liability will be experienced once the employment improvements expected as a result of the predicted economic recovery are realized.

Eliminating the unfunded liability is a major and long-standing concern for the WSIB, and positive steps have been taken to address it. The WSIB is working with its partners in the workplace safety and insurance system to address each of the levers in the system with the recognition that there is a lot of work to be done. The WSIB's goal is to collaboratively build a long-term financial plan with measurable benchmarks and milestones.

We know it is crucial for all system partners – health and safety associations, employer and worker stakeholders, and the government – to work together to address the issues with a co-ordinated approach. The most important task for the WSIB is to define the course the organization will take over the next five to 10 years and make those tough decisions along the way to ensure financial sustainability. The WSIB is committed to moving forward.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED BALANCE SHEET (unaudited)

($ millions)	Mar. 31, 2010	Dec. 31, 2009
ASSETS		
Cash and cash equivalents	$76	$62
Receivables	855	882
Investments (note 3)	14,633	14,388
Property, equipment and other assets	116	113
Intangible assets	93	96
	$15,773	**$15,541**
LIABILITIES		
Payables and accruals	$880	$754
Long-term debt	110	109
Loss of Retirement Income Fund	1,085	1,054
Employee benefit plans (note 5)	503	495
Benefit liabilities	23,508	23,250
	26,086	**25,662**
Employees' Pension Plan interest in pooled investments (note 3)	1,694	1,630
UNFUNDED LIABILITY		
Accumulated excess of expenses over revenues	(13,285)	(13,106)
Accumulated other comprehensive income	1,278	1,355
	(12,007)	**(11,751)**
	$15,773	**$15,541**

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED STATEMENT OF OPERATIONS (unaudited)

	For the three months ended Mar. 31	
($millions)	**2010**	**2009**
GROSS REVENUE	$1,216	$203
CURRENT OPERATIONS		
REVENUES		
Premiums for the period	$649	$634
Investments (note 3)	362	(685)
Other income	2	1
	1,013	**(50)**
EXPENSES		
Benefit costs	1,207	1,177
Loss of Retirement Income Fund	39	(13)
Administrative and other expenses	52	54
Legislated obligations and commitments	54	55
	1,352	**1,273**
Excess of expenses over revenues from current operations	**(339)**	**(1,323)**
Premiums for unfunded liability	203	253
EXCESS OF EXPENSES OVER REVENUES BEFORE EMPLOYEES' PENSION PLAN INTEREST IN INCOME FROM POOLED INVESTMENTS	**(136)**	**(1,070)**
Employees' Pension Plan interest in income from pooled investments (note 3)	(43)	77
EXCESS OF EXPENSES OVER REVENUES	**$(179)**	**$(993)**

CONSOLIDATED STATEMENT OF CHANGES IN UNFUNDED LIABILITY (unaudited)

	For the three months ended Mar. 31	
($ millions)	**2010**	**2009**
ACCUMULATED EXCESS OF EXPENSES OVER REVENUES		
Balance at beginning of period	$(13,106)	$(11,917)
Excess of expenses over revenues	(179)	(993)
Balance at end of period	**(13,285)**	**(12,910)**
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance at beginning of period	1,355	448
Unrealized and realized gains (losses) on investments	(77)	82
Balance at end of period	**1,278**	**530**
UNFUNDED LIABILITY AT END OF PERIOD	**$(12,007)**	**$(12,380)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	For the three months ended Mar. 31	
($ millions)	**2010**	**2009**
EXCESS OF EXPENSES OVER REVENUES	**$(179)**	**$(993)**
Other comprehensive income (loss):		
Unrealized net gains (losses) on available-for-sale financial assets arising during the period	$45	$(653)
Realized (gains) losses included in income	(133)	752
Unrealized gains (losses) on investments	**(88)**	**99**
Employees' Pension Plan interest in income from pooled investments	11	(17)
Unrealized gains (losses) on investments after Employees' Pension Plan interest in income from pooled investments	**(77)**	**82**
COMPREHENSIVE LOSS	**$(256)**	**$(911)**

WORKPLACE SAFETY AND INSURANCE BOARD

CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

	For the three months ended Mar. 31	
($millions)	**2010**	**2009**
OPERATING CASH FLOWS		
Cash received from:		
Premiums for the period	$749	$686
Premiums for unfunded liability	239	278
Investment income	94	102
	1,082	1,066
Cash paid to:		
Claimants, survivors and care providers	(851)	(866)
Loss of Retirement Income Fund	(18)	(15)
Employees and suppliers for administrative goods and services	(130)	(180)
Legislated obligations and commitments	(48)	(47)
	(1,047)	(1,108)
Net cash provided (required) by operating activities	**35**	**(42)**
INVESTING CASH FLOWS		
Sale of investments	4,449	5,624
Purchase of investments	(4,414)	(5,697)
Acquisition	(56)	-
Net cash required by investing activities	**(21)**	**(73)**
FINANCING CASH FLOWS		
Mortgages	1	(1)
Obligation under capital leases	(1)	(1)
Net cash provided (required) by financing activities	**-**	**(2)**
Increase (decrease) in cash and cash equivalents	**14**	**(117)**
Cash and cash equivalents, beginning of period	62	141
Cash and cash equivalents, end of period	**$76**	**$24**

1. GENERAL

In accordance with the provisions of the Workplace Safety and Insurance Act the accounts of the Workplace Safety and Insurance Board (WSIB) are audited annually at its December 31 year-end and the annual report is filed with the Ministry of Labour. The unaudited financial statements presented here are in accordance with CICA accounting standard on "Interim Financial Statements" (CICA Handbook Section 1751). The statements follow the same accounting policies and methods as the most recent annual financial statements. These statements should be read in conjunction with the WSIB's Annual Report.

The results of operations for interim periods are not necessarily indicative of full year results.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements include the Schedule 1 and Schedule 2 accounts of the WSIB and its subsidiaries. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles, except that these unaudited financial statements do not include all of the disclosures required for annual financial statements. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates. The significant accounting policies followed in the preparation of these interim consolidated financial statements are consistent with those found in the Annual Report.

Basis of Consolidation

The WSIB's subsidiaries are consolidated. Investments in entities in which the WSIB exercises a significant influence are accounted for using the equity method.

The consolidated financial statements include the assets, liabilities, results of operations and cash flows of all subsidiaries of the WSIB after the elimination of intercompany transactions and balances.

Significant Accounting Changes

Business combinations

On January 1, 2009 the WSIB adopted new CICA Handbook Section 1582. Section 1582 provides guidance for the accounting and disclosure requirements for a business combination.

Investment in businesses in which the WSIB's ownership is over 50 per cent is accounted for as business combination. The purchase price is allocated to all identifiable tangible and intangible assets and liabilities in proportion to their fair values on the purchase date.

Any non-controlling interest in the subsidiary is recorded on the date of acquisition. Acquisition cost is expensed when incurred.

Financial instruments disclosures

The WSIB adopted the amendments to CICA 3862, Financial Instruments – Disclosures effective January 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the fund's investments. The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs used are observable inputs other than Level 1 quoted prices, such as prices in an active market for similar assets or liabilities or where observable inputs are used for valuation of an asset or liability (Level 2);
- Inputs used for the valuation of an asset or liability are not based on observable market data (unobservable inputs) (Level 3).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

3. INVESTMENTS AND INVESTMENT REVENUE

Investments by category are as follows:

($ millions)	March 2010							Dec 2009
	Amortized cost	Carrying value adjustment	Unrealized** Gains	Unrealized** Losses	Carrying value	EPP*	WSIB	Carrying value
Held-for-trading								
Foreign exchange contracts								
Domestic	$50	$2,977	$ -	$ -	$3,027	$348	$2,679	$2,994
Foreign - US	-	(1,978)	-	-	(1,978)	(227)	(1,751)	(1,947)
- Global	-	(973)	-	-	(973)	(111)	(862)	(969)
Total held-for-trading	**50**	**26**	**-**	**-**	**76**	**10**	**66**	**78**
Available-for-sale								
Fixed income securities								
Bonds	4,865	-	170	(11)	5,024	565	4,459	4,962
Equity securities								
Domestic	1,799	2	540	-	2,341	266	2,075	2,246
Foreign - US	3,431	3	293	-	3,727	426	3,301	3,661
- Global	2,374	15	194	-	2,583	294	2,289	2,632
Real estate***	177	23	128	(26)	302	73	229	312
	7,781	43	1,155	(26)	8,953	1,059	7,894	8,851
Total available-for-sale	**12,646**	**43**	**1,325**	**(37)**	**13,977**	**1,624**	**12,353**	**13,813**
Real estate entities subject to significant influence	511	9	-	-	520	60	460	437
Loss of Retirement Income Fund annuities	60	-	-	-	60	-	60	60
Total investments	**$13,267**	**$78**	**$1,325**	**$(37)**	**$14,633**	**$1,694**	**$12,939**	**$14,388**

* Employees' Pension Plan interest in pooled investments

** Unrealized Gains (Losses) include a gain of $10 million from Employees' Pension Plan

*** Participating debentures in Real estate

Revenue by category of investments is as follows:

	For the three months ended Mar. 31	
($ millions)	**2010**	**2009**
Held-for-trading		
Foreign exchange contracts	$140	$ (43)
Available-for-sale		
Bonds	63	76
Amortization	(5)	(6)
Equities	163	(712)
Real estate*	9	2
	230	(640)
Real estate entities subject to significant influence	2	4
Short-term securities	-	1
	372	**(678)**
Investment expenses	(10)	(7)
Net investment revenue	**362**	**(685)**
Employees' Pension Plan interest in income from pooled investments	(43)	77
	$319	**$(608)**

* Participating debentures in Real estate

For the Three Months Ended March 31:

Revenue from bonds includes $7 million (2009: $17 million) of net realized gains. Revenue from equities includes $123 million net realized gains (2009: $770 million net realized losses) and real estate includes $3 million (2009: $1 million) of net realized gains. Revenue from foreign exchange contracts includes $162 million of net realized gains (2009: $47 million of net realized losses).

During the period, $24 million (2009: $585 million) was assessed as an other-than-temporary impairment and recognized as a reduction in investment income.

These assets were comprised of equity securities which had significant prolonged market losses which the WSIB determined were other-than-temporary. The remaining unrealized losses on available-for-sale securities of $37 million (2009: $369 million) are not considered to be other-than-temporarily impaired as at March 31, 2010 and remain in accumulated other comprehensive income. These losses were not considered other-than-temporary as their amounts were either insignificant and/or short-term in nature and are securities in which the WSIB has the intent and ability to hold to recover the temporary loss.

4. FAIR VALUE MEASUREMENT DISCLOSURE

The following is a summary of the inputs used as of March 31, 2010 in valuing the WSIB's investments and derivatives carried at fair values:

($ millions)	Value using quoted prices (Level 1)	Value using observable inputs (Level 2)	Value using non-observable inputs (Level 3)	Total
Held-for-trading				
Foreign exchange contracts	$ -	$76	$ -	$76
Available-for-sale				
Bonds	-	5,020	4	5,024
Equities	7,687	859	105	8,651
Real estate*	-	27	275	302
Other				
Loss of Retirement Income Fund annuities	-	60	-	60
Total	**$7,687**	**$6,042**	**$384**	**$14,113**

* Participating debentures in Real estate

For the period ended March 31, 2010, there were no significant transfers between Level 1 and Level 2.

During the period ended March 31, 2010, the reconciliation of investments measured at fair value using non-observable inputs (Level 3) is presented as follows:

	Held-for-trading	Available-for-sale	Total
Balances at beginning of year	$ -	$390	$390
Net purchases, sales, issuances and settlements	-	(8)	(8)
Realized gains recorded in net income	-	3	3
Unrealized losses recorded in other comprehensive income	-	(1)	(1)
Balances at end of year	**$ -**	**$384**	**$384**

The total unrealized loss for the period ended March 31, 2010 included in comprehensive income which is still held as of year-end is $1 million.

5. EMPLOYEE BENEFIT PLANS

The WSIB has several benefit plans for eligible current and retired employees. The cost of employee benefit plans is recognized in the reporting period in which employees have provided service.

Pension and Other Benefit Plans

The WSIB has two pension plans for its employees and employees of Safe Workplace Associations: the WSIB Employees' Pension Plan and the WSIB Employees' Supplementary Pension Plan.

Other benefits include medical, dental and life insurance, accrued vacation, short-term salary protection to cover periods of illness and other absences, as well as, the costs of insurance benefits provided to employees who sustain injuries in the course of employment.

The most recent actuarial valuation for funding purposes was performed as of December 31, 2007.

The total expenses of employee benefit plans are as follows:

	For the three months ended Mar. 31	
($ millions)	**2010**	**2009**
Employees’ Pension Plan	$9.5	$2.0
Employees’ Supplementary Pension Plan	0.4	0.3
Other benefit plans	11.2	9.5
Total plan expenses	**$21.1**	**$11.8**

6. COMPARATIVE FIGURES

Certain of the comparative amounts have been reclassified to conform with the presentation adopted in the current period.

Workplace Safety & Insurance Board

Commission de la sécurité professionnelle et de l'assurance contre les accidents du travail

ROAD TO ZERO