Workplace Safety and Insurance Board

First Quarter 2014 Sufficiency Report to Stakeholders

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

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President and CEO's Message

The Workplace Safety and Insurance Board (the "WSIB") has a statutory responsibility to ensure that the Province of Ontario's (the "Province") workplace compensation system remains financially viable and we eliminate our unfunded liability (the "UFL") by December 31, 2027. Continued strong operating results in the first quarter of 2014 allowed us to realize $717 million of total comprehensive income resulting in a $629 million reduction of our UFL corresponding to an increase in our Sufficiency Ratio from 63.0% to 64.5%. Thanks to more stringent financial controls and changes to our return to work and health care strategy, the UFL stood at $10.9 billion on a sufficiency basis at March 31, 2014, a decrease of $0.4 billion since the beginning of the year.

Ontario Regulation 338/13 under the *Workplace Safety and Insurance Act, 1997* (Ontario) (the "WSIA"), came into force on January 1, 2014, modifying the way we calculate our Sufficiency Ratio. The values of our assets and our liabilities are now determined using actuarial valuations consistent with accepted actuarial practices for going concern valuations, which permits us to amortize investment gains and losses that differ from our long-term expected return, reducing the impact of returns on investments from one period to the next. The amended methodology for calculating the Sufficiency Ratio reduces the volatility of our financial results on a sufficiency basis, which will be demonstrated in our quarterly reporting on the UFL.

In the first quarter of 2014, the WSIB realized strong operating results and investment returns ahead of our long-term expectations which led to an improvement in our Sufficiency Ratio from 63.0% to 64.5% as calculated under *Ontario Regulation 338/13*. Since the WSIB's first Sufficiency Report, issued as at December 31, 2012, our Sufficiency Ratio has improved from 57.0% to 64.5%, reflecting continued operating improvements and a higher return on investments, relative to long-term expectations.

In 2012, the Government of Ontario passed *Ontario Regulation 141/12* that requires the WSIB to reach Sufficiency Ratios of 60% by 2017, 80% by 2022 and 100% by 2027. I am pleased to report that we are well on our way to meeting these requirements, but the system is still at a very delicate stage. Maintaining the WSIB's Sufficiency Ratio at over 60% and meeting the next funding requirement of 80% by 2022 remains a significant challenge. It is vital that we stay the course.

Several years ago, the WSIB achieved strong investment returns which allowed it to achieve a Funding Ratio in excess of 70%. Despite these strong investment returns, the WSIB was not able to continue to progress towards eliminating its UFL and, accordingly, utmost caution must now be exercised in projecting financial results into the future based on our current results.

Financial results in the first quarter of 2014 give us continued cause to be optimistic about the future, but it must be understood that the system is still fragile and just beginning to move away from its financial "tipping point". This is a delicate time when recent gains could easily be undone. It is more important than ever that the WSIB maintains its focus, and builds on the momentum that has been created.

I look forward to reporting our continued progress throughout the remainder of the year.

I. David Marshall
President and Chief Executive Officer
June 12, 2014
Toronto, Ontario

Management's Responsibility for Financial Reporting

Management's review of the Sufficiency Ratio and related notes and management's discussion of Funding and Risks (the "Sufficiency Statement") have been prepared by management and approved by the Board of Directors of the WSIB. The Sufficiency Ratio calculation has been prepared in accordance with the accounting policies described in note 2, pursuant to *Ontario Regulation 141/12* made under the WSIA, as amended January 1, 2014, and, where appropriate, reflects management's best estimates and judgment. Where alternative accounting methods exist, management has chosen those methods considered most appropriate in the circumstances. Management is responsible for the accuracy, integrity and objectivity of the Sufficiency Statement within reasonable limits of materiality of internal controls. Management is also responsible for the preparation and presentation of additional financial information in the quarterly report to stakeholders and ensuring its consistency with the Sufficiency Statement.

I. David Marshall
President and Chief Executive Officer
June 12, 2014
Toronto, Ontario

Lawrence E. Davis
Chief Financial Officer

Review of Funding and Risks

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1. Overview

An explanation of our regulations.

The Review of Funding and Risks should be read in conjunction with the unaudited consolidated interim financial statements of the WSIB as at and for the three months ended March 31, 2014 (the "consolidated financial statements") and the Sufficiency Statement and accompanying notes of the WSIB as at March 31, 2014 (the "Sufficiency Report to Stakeholders").

The WSIA governs the operations of the WSIB. One of the statutory purposes of the WSIA is to provide compensation and other benefits to workers and to the survivors of deceased workers in a financially responsible and accountable manner.

The WSIA requires the WSIB to make payments for current benefits as they come due and to provide for future benefits. Further, it requires that the WSIB shall maintain the Insurance Fund so as not to burden unduly or unfairly any class of Schedule 1 employers with payments, in any year in respect of current benefits, or in future years in respect of future benefits.

Ontario Regulation 141/12, which came into force on January 1, 2013, requires the WSIB to meet prescribed Sufficiency Ratios by certain dates over the next 15 years. *Ontario Regulation 141/12* is a regulation under the WSIA and addresses the WSIB's UFL, which has increased to a significant size and poses a threat to the future of the WSIB's Insurance Fund. *Ontario Regulation 141/12* mandates that the WSIB meet the following prescribed ratios:

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

Under the WSIA and *Ontario Regulation 141/12*, the WSIB submitted a Sufficiency Plan to the Minister of Labour on June 30, 2013 describing the measures being taken by the WSIB to improve the Sufficiency Ratio and how these measures will achieve the prescribed targets. On August 8, 2013, the Minister of Labour formally accepted our Sufficiency Plan. The Sufficiency Plan is a road map to achieving our legislated funding requirements. It allows us to create and test assumptions of the valuation of our assets and liabilities, as well as identify and mitigate risks that may prevent legislated requirements from being met. We are committed to quarterly reporting on our progress toward meeting legislated funding requirements.

Ontario Regulation 338/13 came into force on January 1, 2014, changing the method that the WSIB is required to use to calculate its assets for the purpose of reporting its Sufficiency Ratio pursuant to *Subsection 1 (3)* of *Ontario Regulation 141/12*. The Sufficiency Ratio measures whether there are sufficient funds to meet the WSIB's future projected claims payouts. The values of our assets as well as our liabilities are now determined using actuarial valuations that are consistent with accepted actuarial practices for going concern valuations. With respect to our assets, we are now permitted to amortize our investment gains and losses that differ from our long-term expected return, reducing the impact of returns on investments from one period to the next. We have calculated our Sufficiency Ratio by applying the *Ontario Regulation 338/13* methodology retrospectively as at January 1, 2013, the date when we first began reporting the Sufficiency Ratio.

Specific definitions for a number of terms in this Sufficiency Report can be found in Subsection 8.

2. Period in Review

A discussion of our performance for the three months ended March 31, 2014 and the effect on our Sufficiency Ratio.

Our Sufficiency Ratio increased from 63.0% as at December 31, 2013 to 64.5% as at March 31, 2014 reflecting continued strong operating results and a 3.8% return on our investments ahead of our long-term expectation of 1.5%. *Ontario Regulation 338/13* now permits the WSIB to calculate its Sufficiency Ratio using actuarial methods and assumptions that are consistent with accepted actuarial practices for going concern valuations. Investment gains and losses that differ from long-term expectations for the purposes of the Sufficiency Ratio are amortized over a five-year period, thus moderating the effect of investment market volatility on our financial results.

Our Insurance Fund Ratio increased from 64.6% as at December 31, 2013 to 66.2% as at March 31, 2014 reflecting continued operating improvements and a higher return on investments, relative to long-term expectations.

Our Employee Benefit Plans Ratio remained unchanged at 74.4% as at March 31, 2014. *Ontario Regulation 338/13* permits the actuarial valuation of the assets of the Employee Benefit Plans as well as the liabilities on a going concern basis. Additionally, gains and losses that differ from the long-term expected return on the assets of the Employee Benefit Plans are amortized over a five-year period, resulting in reduced volatility of the financial results on a sufficiency basis.

3. The Sufficiency Ratio Calculation Methodology

A description of the components of the Sufficiency Ratio calculation.

As required by *Ontario Regulation 141/12* and as amended by *Ontario Regulation 338/13* effective January 1, 2014, we calculate our Sufficiency Ratio by comparing assets on hand to total estimated liabilities. This fundamental measure is comparable with the methods used by other Canadian workers' compensation boards and as reported by the Association of Workers' Compensation Boards of Canada to measure the adequacy of funding and is a measure used by leading pension plans around the world. However, a standard definition for Sufficiency Ratio does not exist.

As at March 31, 2014, we had a funding shortfall of $10.9 billion on a Sufficiency Ratio basis, which means our liabilities (the estimated present value of future benefit payments) exceeded the current value of our assets. Expressed in percentage terms, we had 64.5% of the assets required to meet our future benefit obligations.

The WSIB has a statutory responsibility to ensure the Province's workplace compensation system remains financially viable. While we have $21.8 billion of investments on hand, the WSIB does not have sufficient funds on hand to cover the future cost of existing claims in the system. The existence of unfunded future liabilities transfers costs from one generation of employers to another which has serious consequences for the perceived fairness and affordability of benefits by future employers, and, if not addressed, could lead to endangering future worker benefits.

We consider the following principles to represent the tenets of a fair and transparent funding system and use them as a basis for the selection of the methodology to calculate the Sufficiency Ratio:

- *Stability of Premiums* – annual premiums should be predictable and stable;
- *Transparent and Understandable* – employers should be able to clearly understand how the WSIB makes funding decisions;

- *Financial Security* – the WSIB should act in a financially prudent manner in support of the sustainability of the workplace compensation system;
- *Ease of Administration* – the WSIB should administer the funding/pricing system efficiently and effectively;
- *Collective Liability* – funding the system adequately means all Schedule 1 employers must collectively pay the premiums required each year to maintain the WSIB Insurance Fund; and
- *Compliance with the WSIA* – the WSIB must maintain the Insurance Fund so as not to burden unduly or unfairly any class of Schedule 1 employers with payments, in any year, in respect of current benefits, or in future years in respect of future benefits.

Sufficiency Ratio Calculation Policies

Set forth below is a summary of the accounting policies used to calculate our Sufficiency Ratio as at March 31, 2014 and December 31, 2013 based on our interpretation of *Ontario Regulation 141/12*, as amended January 1, 2014. *Ontario Regulation 338/13* came into force on January 1, 2014 permitting the WSIB to calculate its Sufficiency Ratio using actuarial methods and assumptions that are consistent with accepted actuarial practices for going concern valuations. The valuations approach applies to both assets and liabilities on a retrospective basis to January 1, 2013.

Assets

The assets included in the Sufficiency Ratio are calculated as our total assets shown on our consolidated statements, valued at the long-term expected rate of return, less the interests in those assets held by third parties (non-controlling interests). We have applied this calculation for assets from January 1, 2013. The adjustment to deduct assets held by third parties is necessary as our assets include portions of investments to which third parties ultimately have rights (including the assets of the WSIB Employee Pension Plan) and therefore would not be appropriate to include in our Sufficiency Ratio.

In our consolidated financial statements, we value our investments based on market values. Market values provide a snapshot of value as at the consolidated statement of financial position date. As our investment strategy and many of our underlying investments are intended to yield returns over the long-term, any short-term losses should not necessarily signal the need to increase premium rates or reduce worker benefits. Conversely, significant short-term gains in asset value do not necessarily mean the UFL has been permanently reduced and funds are available to lower employer premium rates or suggest there is capacity to increase worker benefits. To avoid rate fluctuations generated by financial market volatility, under *Ontario Regulation 338/13*, we amortize investment gains and losses that differ from long-term expectations for the purposes of the Sufficiency Ratio over a five-year period, thus moderating the effect of investment market volatility on financial results. The long-term rate is based on extensive research and considers factors such as the WSIB's historical investment returns and expected future returns relevant to the WSIB's investment strategy. The long-term expected rate of return is 6.0%.

Amortizing returns over five years on a straight-line basis is consistent with guidance in the *Pension Benefits Act (Ontario)* and is used by many large pension plans in Ontario. This approach takes into account the unique business requirements of Canadian workers' compensation systems, including the need for pricing stability (for employer premium rates) and benefit sustainability (for injured workers and their dependants). The amortization period of five years is considered an appropriate length of time to reduce the volatility of investment returns without deferring gains or losses unduly into future periods.

Liabilities

The liabilities included in the Sufficiency Ratio are calculated as our total liabilities shown on our consolidated statement of financial position, adjusted to reflect valuations of the Employee Benefit Plans liabilities on a going concern rather than market basis.

Under IFRS, we are required to value the obligations of our Employee Benefit Plans based on market yields of high quality corporate bonds at the end of a reporting period. This results in volatility from movements in short-term interest rates. In addition, under IFRS, the impact of changes in accounting or actuarial standards can result in a significant charge in the year of adoption. Similarly, as part of our analysis and review of worker injuries and diseases, additional benefit obligations are sometimes required to be accrued for workers who are at risk for injury or impairment in the future due to the nature of their past and current employment. These changes are recorded as additional liabilities in the year of change. Significant changes could have a significant impact on premiums and would unduly burden employers with additional premium payments in the year of adoption and contradict the WSIB's goal of stable premiums and would not align premiums with the WSIB's true long-term costs.

Consequently, we value Employee Benefit Plans liabilities, on a long-term going concern basis consistent with accepted actuarial practices used to value our Insurance Fund liability.

4. *Ontario Regulation 141/12* as amended January 1, 2014

A discussion of the impact of the amendment to Ontario Regulation 141/12 on our Unfunded Liability on a Sufficiency Ratio basis.

Ontario Regulation 141/12 was amended by *Ontario Regulation 338/13* which came into effect on January 1, 2014. *Ontario Regulation 338/13* permits the WSIB to calculate its Sufficiency Ratio using actuarial methods and assumptions that are consistent with accepted actuarial practices for going concern valuations.

The amendment to *Ontario Regulation 141/12* revises certain accounting requirements related to the valuation of assets for the purpose of calculating the Sufficiency Ratio. The Sufficiency Ratio assets are established by adjusting the total assets by investment returns above or below the long-term rate of return assumptions in effect for the period. The amended standard was applied retrospectively and had the following effect on the UFL attributable to WSIB stakeholders on a Sufficiency Ratio basis:

(millions of Canadian dollars)	**March 31 2014**	**December 31 2013**	**January 1 2013**
Unfunded liability attributable to WSIB stakeholders on a Sufficiency Ratio basis prior to amendment	10,524	10,484	13,105
Decrease in valuation adjustment of total assets	554	971	-
Less: Non-controlling interests	(173)	(131)	-
Unfunded liability attributable to WSIB stakeholders on a Sufficiency Ratio basis after amendment	**10,905**	**11,324**	**13,105**

5. Our Funding Strategy

A discussion of our funding strategy and how we plan to increase the Sufficiency Ratio.

In accordance with *Ontario Regulation 141/12*, the WSIB submitted a Sufficiency Plan to the Minister of Labour describing the measures being taken by the WSIB to improve the Sufficiency Ratio and how these measures will achieve the prescribed ratios.

To meet our Sufficiency Ratio requirements, we will continue to manage our investments to generate returns that meet or exceed the expected long-term rate of return, while prudently managing the WSIB's operations to ensure premium revenues absorb benefit costs, administration and other expenses and provide an allocation towards the retirement of the UFL. We have been managing our operations in this manner since early 2011, resulting in premium revenues exceeding cash operating expenses over this time period. In addition, as a result of favourable claims experience and investment returns, we were able to make demonstrable progress towards retiring the UFL. While investment returns can vary from year to year, we expect to earn a return of 6.0% over a rolling 10 to 15 year period. Our long-term estimated return on assets was determined after a detailed analysis was performed with external advisers. Our Statement of Investment Policies and Procedures ("SIPP") requires a detailed analysis at least every four years. The expected rate of return is reflected on a consistent basis in the valuation of our assets for the purpose of calculating the Sufficiency Ratio.

6. Supplemental Measures

Supplemental measures to assess our financial condition.

In addition to the Sufficiency Ratio, we also assess risks and sustainability by monitoring our Insurance Fund Ratio and the Employee Benefit Plans Ratio as noted below:

Insurance Fund Ratio

The Insurance Fund Ratio excludes the net deficit of the WSIB's Employee Benefit Plans in order to provide a measure of the WSIB's insurance operations and is calculated as follows:

(millions of Canadian dollars)	**March 31 2014**	**December 31 2013**
Total assets on the Sufficiency Ratio basis	19,888	19,342
Less: Non-controlling interests in investments	(60)	(66)
Total Assets	**19,828**	**19,276**
Total liabilities on the Sufficiency Ratio basis	30,733	30,600
Less: Employee Benefit Plans deficit, on the Sufficiency Ratio basis	(785)	(766)
Total Liabilities	**29,948**	**29,834**
Insurance Fund Ratio	**66.2%**	**64.6%**

As at March 31, 2014, the Insurance Fund Ratio increased by 1.6% to 66.2% primarily attributed to a $546 million increase in total assets reflecting continued operating improvements and a 3.8% return on investments. The values of our assets and liabilities are determined using actuarial valuations that are consistent with accepted actuarial practices for going concern valuations. Investment gains and losses that differ from our long-term expected return are amortized over a five-year period.

Employee Benefit Plans Ratio

The Employee Benefit Plans of the WSIB are a component of total compensation for the WSIB's permanent employees. The Employee Benefit Plans Ratio provides a measure of the sufficiency of the Employee Benefit Plans.

The Employee Benefit Plans Ratio is calculated as follows:

(millions of Canadian dollars)	March 31 2014	December 31 2013
Employee Benefit Plans assets on the Sufficiency Ratio basis	2,281	2,227
Divided by: Employee Benefit Plans obligation, on the Sufficiency Ratio basis	3,066	2,994
Employee Benefit Plans Ratio	**74.4%**	**74.4%**

As at March 31, 2014, the Employee Benefit Plans Ratio was 74.4%, unchanged from December 31, 2013. The modest increase in return on investments was slightly offset by a modest increase in Employee Benefit Plans liabilities. The values of our assets and liabilities are determined using actuarial valuations that are consistent with accepted actuarial practices for going concern valuations. Investment gains and losses that differ from our long-term expected return are amortized over a five-year period.

7. Risk Factors

A discussion of the more significant risk factors affecting our business.

The significant risk factors that affect the operations of the WSIB are discussed in the Management's Discussion and Analysis in our 2013 Annual Report. The most significant risk factors affecting attainment of the legislated targets for our Sufficiency Ratio are presented below.

Business Risks

Investments

Our ability to meet our long-term obligations is dependent upon the sufficiency of our Investment Fund. The risks to our Investment Fund relate to liquidity, credit and the market. Our primary investment risk is that investment returns, taken together with a reasonable and sustainable level of contributions, are insufficient to meet the long-term obligations for which the Investment Fund was established. This risk would be manifest in the failure to achieve a net return of at least the long-term actuarial discount rate of 6.0% (5.0% to 2017 and 5.5% thereafter) over a horizon of rolling 10 to 15 year periods.

Our primary risk mitigation tool is the diversification of investment return sources as provided for in our SIPP, which is presented annually to the Board of Directors for their approval.

Insurance Fund liabilities

The WSIB, as the trust agency for administering the Province's compensation system, must ensure that there is an adequate provision of funds to cover the cost of future claims. Benefit liabilities, required to cover the ultimate benefits to be paid on reported and unreported claims, are calculated using sound actuarial practices to estimate costs based on a number of factors.

Establishing an appropriate level of benefit liabilities is, therefore, an inherently uncertain process which presents a number of risks that could adversely affect our comprehensive income and financial condition.

The risks are predominantly related to:

- the failure to accurately make assumptions and assess the factors of claims costs which may result in setting premium rates that are inadequate to cover costs and contribute to the reduction of the UFL; and

- unforeseen changes in the factors used to calculate the ultimate claims costs could render our estimates inaccurate.

We mitigate these risks:

- by utilizing both proprietary and commercially available actuarial models and assessing historical loss development patterns;
- by regular, ongoing reviews and re-evaluation of claims and their impact on the estimate of the benefit liabilities;
- by engaging external actuaries to review actuarial assumptions and methodologies in establishing the benefit liabilities; and
- by reviewing actuarial related matters at regular meetings with our Actuarial Advisory Committee and Chief Statistician.

Economic conditions and labour market changes

Given the WSIB's mandate to deliver a no-fault insurance plan, funded predominantly by premium revenues, the WSIB is inherently subject to economic risks, including:

- low or modest growth in the Province's employment levels, especially in covered industries, may result in not meeting premium revenue targets as well as limiting work transition opportunities;
- the growth in industries that are not required to have coverage under the WSIA may negatively impact the UFL;
- the trend toward casual, part-time and temporary work may result in return to work challenges and, therefore, higher claims costs; and
- the growing number of older workers in the workforce who, if injured, generally have a longer recovery time and greater challenge with return to work.

We mitigate these risks by:

- conducting economic forecasting to better project the level of future insurable earnings and employment levels within the underlying industry sector;
- continuously monitoring and researching the job market for available, sustainable positions for injured workers ready to transition to the job market;
- providing return to work and health care intervention programs to support injury recovery and sustainable return to work; and
- enhancing the work transition services for injured workers facing return to work obstacles, such as English as a second language and limited work experience, by providing enhanced employment placement services.

Regulatory, political and other influences

Our business is subject to changing legal regulatory and other influences. Any amendments to the WSIA or other legislation could require the WSIB to make adjustments. For example, changes in law or regulations can have an impact on the way we deliver services or the services themselves. This may require the dedication of WSIB resources to implement new systems or processes. Further, political and stakeholder influences and competing interests may impact our ability to make timely changes to policy or operational programs and processes, or may introduce new changes not planned or contemplated by the WSIB.

We mitigate this risk by:

- engaging with the Minister of Labour and the Ministry of Labour to understand the intent of any legislative or regulatory changes and to consult on the potential impact to outcomes and capacity;
- accurately costing any legislative or regulatory changes to ensure that the impact of any change is fully understood;
- consulting with our stakeholder community during the planning and implementation of any legislative or regulatory changes, as well as WSIB program and policy changes; and
- ensuring that any changes to existing policies and programs are developed and implemented and that they align with our value propositions and organizational capabilities.

8. Definitions

A glossary of the terms utilized in this report.

- **"Employee Benefit Plans"** refer to the long-term benefit plans offered to permanent employees of the WSIB. They include pension and other post-employment benefit plans.
- **"Employee Benefit Plans Ratio"** refers to the ratio of the Employee Benefit Plans' assets to the Employee Benefit Plans' liabilities as presented in the Sufficiency Statement, and is expressed as a percentage.
- **"Funding Ratio"** refers to the ratio of total assets of the WSIB, less non-controlling interests, to the total liabilities of the WSIB, as presented in the WSIB's consolidated financial statements prepared according to IFRS, and is expressed as a percentage.
- **"Insurance Fund"** refers to the assets and liabilities of the WSIB, excluding the assets and obligations of the Employee Benefit Plans.
- **"Insurance Fund Ratio"** refers to the ratio of Insurance Fund assets, less non-controlling interests, to Insurance Fund liabilities, as presented in the Sufficiency Statement, and is expressed as a percentage.
- **"Non-controlling Interests"** refer to the WSIB Employees' Pension Plan and other investors' proportionate interest of the net assets and comprehensive income of the subsidiaries.
- **"Sufficiency Ratio"** refers to the ratio of total assets of the WSIB, less non-controlling interests, to the total liabilities of the WSIB, as presented in the Sufficiency Statement, and is expressed as a percentage.
- **"Sufficiency Statement"** refers to the statement that presents the Sufficiency Ratio, Insurance Fund Ratio, and Employee Benefit Plans Ratio. The basis of accounting for the Sufficiency Ratio is found in note 2 of the Sufficiency Statement.

WORKPLACE SAFETY AND INSURANCE BOARD
Sufficiency Statement
As at March 31, 2014
Unaudited (millions of Canadian dollars)

Sufficiency Ratio

	March 31 2014	**December 31 2013** (restated notes 2 & 4)
Sufficiency Ratio assets (note 3)	22,133	21,539
Less: Non-controlling interests	(2,305)	(2,263)
	19,828	19,276
Divided by: Sufficiency Ratio liabilities (note 3)	30,733	30,600
Sufficiency Ratio	**64.5%**	**63.0%**

Supplemental Ratios

Insurance Fund Ratio

	March 31 2014	**December 31 2013** (restated notes 2 & 4)
Insurance Fund assets (note 5)	19,888	19,342
Less: Non-controlling interests	(60)	(66)
	19,828	19,276
Divided by:		
Insurance Fund liabilities (note 5)	30,733	30,600
Less: Employee Benefits Plans deficit, on the Sufficiency Ratio basis	(785)	(766)
	29,948	29,834
Insurance Fund Ratio	**66.2%**	**64.6%**

Employee Benefit Plans Ratio

	March 31 2014	**December 31 2013** (restated notes 2 & 4)
Employee Benefit Plans assets, on the Sufficiency Ratio basis (note 6)	2,281	2,227
Divided by: Employee Benefit Plans obligation, on the Sufficiency Ratio basis (note 6)	3,066	2,994
Employee Benefit Plans Ratio	**74.4%**	**74.4%**

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

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Sufficiency Statement
March 31, 2014
Unaudited (millions of Canadian dollars)

1. Governing Regulation

Ontario Regulation 141/12 under the WSIA came into force on January 1, 2013. *Ontario Regulation 141/12* requires the WSIB to calculate a Sufficiency Ratio of the Insurance Fund and ensure the Sufficiency Ratio meets certain prescribed ratios by December 31, 2017, 2022 and 2027.

Ontario Regulation 141/12, as amended by *Ontario Regulation 338/13* effective January 1, 2014, states that the Sufficiency Ratio of the Insurance Fund shall be calculated by dividing the value of the Insurance Fund assets as of the date, as determined by the WSIB in accordance with accepted accounting principles, by the value of the Insurance Fund liabilities as of the date, as determined by the WSIB's actuary in an actuarial valuation.

2. Summary of Significant Accounting Policies

The consolidated financial statements of the WSIB prepared in accordance with IFRS have been adjusted for the items that follow, to derive the assets and liabilities used in the calculation of the Sufficiency Ratio in accordance with *Ontario Regulation 141/12,* as amended by *Ontario Regulation 338/13.* The amended standard has been applied retrospectively as at January 1, 2013.

Assets

Assets for the purposes of the Sufficiency Ratio calculation have been determined by the WSIB to consist of the total consolidated assets of the WSIB, valued at the long-term expected rate of return, less the interests in those assets held by third parties, as represented by the balance of non-controlling interests. See note 4.

Liabilities

Liabilities for the purposes of the Sufficiency Ratio have been determined as follows:

Insurance Fund liabilities have been determined through an actuarial valuation as described in note 12 of the WSIB's 2014 condensed interim consolidated financial statements.

Employee Benefit Plans consist of long-term employee benefits including pensions and other post-employment benefits. The value of the liabilities of the Employee Benefit Plans have been determined through an actuarial valuation, using the going concern basis, which reflects the expected future returns on the WSIB's registered pension plan assets, less any required actuarial margin for adverse deviation, in determining the present value of benefit liabilities, consistent with the funding basis of the WSIB's pension plan. This discount rate is based on research by an actuarial consulting firm and considers factors such as the WSIB's historical investment returns and the WSIB's investment strategy. The liability reflects the use of a discount rate of 5.0% to 2017 and 5.5% thereafter determined with reference to the long-term expected rate of return on plan assets. This differs from the accounting basis used in preparing the WSIB's consolidated financial statements, which uses a discount rate of 4.45% based on the application of notional zero coupon yields to the projected cash flow obligations for the WSIB's pension plan. Also, significant impacts on liabilities that result from changes in legislation or actuarial or accounting standards are amortized over a reasonable period based on the size of their impact and their relation to the regulated sufficiency requirements, such period not to exceed five years.

All other liabilities are determined on an accounting basis as recorded in the WSIB's consolidated financial statements.

3. Reconciliation of the Sufficiency Ratio Assets and Liabilities to the condensed interim consolidated financial statements prepared in accordance with IFRS

A reconciliation of the total assets and liabilities used for the calculation of the Sufficiency Ratio to those under IFRS as at March 31, 2014 is provided below. The consolidated statement of financial position presented on an the IFRS basis is the condensed interim consolidated statement of financial position from the WSIB's condensed interim consolidated financial statements. The condensed interim consolidated financial statements include explanatory notes. The funding ratio is defined as total assets less non-controlling interests per the IFRS consolidated financial statements, divided by total liabilities per the IFRS consolidated financial statements. An explanatory note follows the reconciliation below.

WORKPLACE SAFETY AND INSURANCE BOARD
Notes to Sufficiency Statement
March 31, 2014
Unaudited (millions of Canadian dollars)

	March 31, 2014			December 31, 2013		
	IFRS Basis	Adjust–ments	Sufficiency Ratio Basis	IFRS Basis	Adjust–ments	Sufficiency Ratio Basis
				(as restated in note 4)		
Assets						
Cash and cash equivalents	1,390	-	1,390	1,274	-	1,274
Receivables	1,477	-	1,477	1,168	-	1,168
Investments	20,458	(1,352)[1]	19,106	19,908	(971)[1]	18,937
Property and equipment	131	-	131	133	-	133
Intangible assets	29	-	29	27	-	27
Total assets	**23,485**	**(1,352)**	**22,133**	**22,510**	**(971)**	**21,539**
Liabilities						
Payables and accruals	1,082	-	1,082	1,090	-	1,090
Derivative liabilities	56	-	56	78	-	78
Long-term debt	167	-	167	168	-	168
Loss of Retirement Income Fund liability	1,585	-	1,585	1,538	-	1,538
Employee Benefit Plans liability	1,068	(283)[2]	785	920	(154)[2]	766
Benefit liabilities	27,058	-	27,058	26,960	-	26,960
Total liabilities	**31,016**	**(283)**	**30,733**	**30,754**	**(154)**	**30,600**
Deficiency of assets						
Unfunded liability attributable to WSIB stakeholders	(10,009)	(896)	(10,905)	(10,638)	(686)	(11,324)
Non-controlling interests	2,478	(173)[1]	2,305	2,394	(131)[1]	2,263
Total deficiency of assets	(7,531)	(1,069)	(8,600)	(8,244)	(817)	(9,061)
Total liabilities & deficiency of assets	**23,485**	**(1,352)**	**22,133**	**22,510**	**(971)**	**21,539**
Funding Ratio	67.7%		-	65.4%		-
Sufficiency Ratio	-		64.5%	-		63.0%
Insurance Fund Ratio	70.1%		66.2%	67.4%		64.6%
Employee Benefit Plans Ratio	69.5%		74.4%	71.8%		74.4%

1. Reflects the valuation adjustment of our total assets shown on our consolidated statement of financial position at the long-term expected rate of return of 1.5% (per quarter) (2013 – 1.5%) resulting in a decrease of $1,352 (2013 – $971), which includes the interests in those assets held by third parties (non-controlling interests) of $173 (2013 – $131). See note 4.
2. Reflects the effect of the use of a discount rate of 5.0% for fiscal years 2014 to 2017 and 5.5% thereafter (2013 – 5.0% for fiscal years 2013 to 2017 and 5.5% thereafter) determined with reference to the expected future returns on plan assets. For the purposes of the consolidated financial statements, a discount rate of 4.45% (2013 – 4.70%) was used based on high quality corporate bond yields (note 2 of the consolidated financial statements).

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4. Calculation of the Sufficiency Ratio

The Sufficiency Ratio is provided to illustrate the ratio of the assets and the liabilities of the WSIB on a sufficiency basis. The Sufficiency Ratio is calculated by dividing the Sufficiency Ratio assets less non-controlling interests by the Sufficiency Ratio liabilities.

The Sufficiency Ratio assets are established by adjusting the total assets by investment returns above or below the long-term rate of return assumptions in effect for the quarter, 1.50% for the first quarter of 2014 (first quarter of 2013 – 1.50%) and are recognized over five years on a straight-line basis to smooth fluctuations in the market value of net assets. For the first quarter of 2014, the value of investments was reduced by the unrecognized returns of $442 (2013 – $499) reflecting investment returns in excess of the long-term rate of return assumption.

The balance of the liabilities of the WSIB is calculated using a discount rate of 5.0% to 2017 and 5.5% thereafter determined with reference to the expected rate of return on plan assets as described in note 3.

As a result, as at March 31, 2014, the Sufficiency Ratio assets reflect $1,352 in valuation adjustments representing the net unrecognized returns in excess of the long-term rate of return assumption in the first quarter of 2014 of 1.5% (2013 – $971 and 1.5%, respectively). These valuation adjustment calculations, based on *Ontario Regulation 338/13,* have been applied retrospectively to January 1, 2013 (returns above or below the long-term rate of return prior to January 1, 2013 have not been deferred and amortized).

The WSIB determined that no adjustments were required to the liabilities under *Ontario Regulation 338/13* for the period.

The change in the valuation adjustment is detailed as follows:

	2013	2014	Total
Unrecognized investment returns above expected rate of return	1,214	465	1,679
Investment returns recognized in prior periods	(243)	-	(243)
Investment returns not recognized in the current period	971	465	1,436
Recognized in the current quarter	(61)	(23)	(84)
Total Valuation adjustments as at March 31, 2014	**910**	**442**	**1,352**

The amount of unrecognized investment returns by the year they are to be recognized are as follows:

		Valuation adjustment to be recognized in:				
Year earned	**Valuation adjustment as at March 31 2014**	**Remainder of 2014**	**2015**	**2016**	**2017**	**2018**
2013	(910)	181	243	243	243	-
2014	(442)	70	93	93	93	93
	(1,352)	**251**	**336**	**336**	**336**	**93**

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Reconciliation of the Sufficiency Ratio assets

	March 31 2014	December 31 2013
Market value of investment assets[1]	21,773[7]	20,715[7]
Less: Cash transfers in the period[1]	(76)	1
Adjusted market value of investment assets	21,697	20,716
Investment assets at expected rate of return[2]	21,232	19,502
Unrecognized investment returns above expected rate of return[3]	465	1,214
Less: amount recognized in current period[4]	(23)	(243)
Valuation adjustments, current period	442	971
Valuation adjustments, prior periods[5]	910	-
Total Valuation adjustments[6]	**1,352**	**971**
Sufficiency Ratio Assets		
Total assets per consolidated financial statements	23,485	22,510
Less: Valuation adjustments[6]	(1,352)	(971)
Sufficiency Ratio assets	**22,133**	**21,539**

1. Represents the market value of investment assets at the end of the current reporting period, less cash contributed from operations, assuming the cash was contributed at the end of the last month of the reporting period.
2. Calculated the expected investment assets based on the long-term rate of return assumption of 6.0% (1.5% for the three months ended March 31, 2014) on ending total investment asset balance as of last reporting period.
3. Calculated as the difference between the expected investment assets and the actual market value of investments, representing the unrecognized investment returns above the long-term rate of return assumption (1.5% for the three months ended March 31, 2014 and 6.0% for the year ended December 31, 2013).
4. Represents the amount recognized in the current period and is calculated as one quarter of one-fifth of the unrecognized investment returns above the long-term rate of return.
5. Represents the valuation adjustments from the prior years' unrecognized investment returns above the long-term rate of return after recognizing one quarter of one-fifth of the unrecognized investment returns in the current period.
6. Represents the total valuation adjustments deducted from the total assets shown on our consolidated statement of financial position to establish the Sufficiency Ratio assets used in the calculation of the Sufficiency Ratio.
7. Market value of investment assets as at March 31, 2014 of $21,773 can be found in the First Quarter 2014 Stakeholders Report Management Discussion & Analysis Section 2 – Operating Results (2013 – See 2013 Annual Report Management Discussion & Analysis Section 4 – Operating Results).

5. Calculation of the Insurance Fund Ratio

The Insurance Fund Ratio is provided as a supplemental measure to illustrate the ratio of assets to liabilities of the WSIB prior to the inclusion of the Employee Benefit Plans. The Insurance Fund Ratio is calculated using the same components as the Sufficiency Ratio as described in notes 3 and 4, except that the investments and net liability of the Employee Benefit Plans as calculated in note 3 are excluded.

6. Calculation of the Employee Benefit Plans Ratio

The Employee Benefit Plans Ratio is provided as a supplemental measure to illustrate the ratio of the assets and the liabilities of the Employee Benefit Plans. The Employee Benefit Plans Ratio is calculated by dividing the assets of the Employee Benefit Plans by the liabilities of the Employee Benefit Plans. The balance of the assets of the Employee Benefit Plans is the amount disclosed in note 11 of the consolidated financial statements prepared under IFRS. The balance of the liabilities of the Employee

Benefit Plans is calculated using a discount rate of 5.0% to 2017 and 5.5% thereafter determined with reference to the expected rate of return on plan assets as described in note 3.