Management discussion & analysis

Introduction

On January 1, 1998, Bill 99, the Workers' Compensation Reform Act became effective and changed the name Workers' Compensation Board (WCB) to Workplace Safety & Insurance Board (WSIB) to reflect the new emphasis and focus on workplace health and safety and on the prevention of injuries and illnesses. Changes mandated by the Workers' Compensation Reform Act include:

- strengthening the WSIB's role in encouraging workers and employers to prevent injuries and illnesses in Ontario workplaces
- restoring the financial viability of the workers' compensation system
- returning injured workers to work safely and more quickly
- refocusing the workers' compensation system as a workplace insurance plan, and
- enhancing the self-reliance of workers and employers in preventing injuries and in managing the consequences of injuries when they do happen.

In addition to these responsibilities, the WSIB continues to provide insurance coverage and claims management services to workers who are injured on the job or who contract an occupational disease.

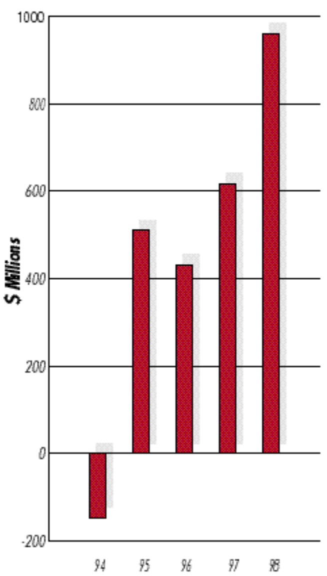
The WSIB is a statutory corporation first created by an Act of the Ontario Legislature in 1914. It is responsible for administering the Workplace Safety and Insurance Act, 1997 (the Act). The WSIB provides compensation to workers who sustain injuries arising out of and in the course of employment, or who contract a recognized occupational disease. Funds are raised by the WSIB through premiums. The WSIB receives no funding from the Ontario provincial government.

The WSIB administers the Act for two groups of employers referred to as Schedule 1 and Schedule 2. Schedule 1 employers are insured through collective liability and their premiums contribute to the WSIB's investment funds to cover benefit payments. Schedule 2 employers are self-insured and are individually liable to reimburse the WSIB for the cost of their claims and related administrative expenses. However, Schedule 2 employers are collectively liable to fund any deficit from their operations. When considered necessary by the WSIB, Schedule 2 employers have to provide full security for their individual long-term liabilities through a combination of expanded deposit requirements and irrevocable letters of credit posted against the liability.

Since the Workers' Compensation Reform Act came into effect on January 1, 1998, the WSIB has made significant progress with regard to the implementation of its reforms. A new service delivery model was developed by the WSIB, which takes into account the specific characteristics of our clients' businesses such as the number of employees, industry sector and geographic location. The complete implementation of the new service delivery model will take place in 1999.

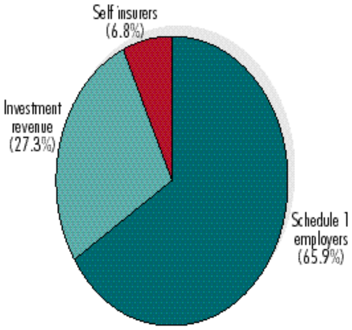
Public education and outreach efforts were stepped up to educate our clients about the effects of new legislation and the way the WSIB will deliver its services. In addition, the Merit Adjusted Premium (MAP) plan was introduced to motivate small businesses to reduce workplace injuries and illnesses.

Excess of Revenues over Expenses
Five-year summary

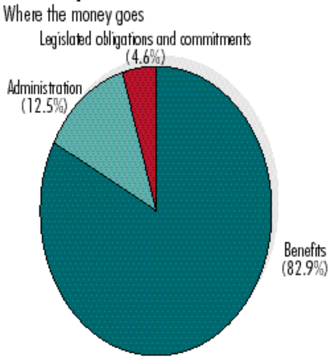


Note: For comparison purposes, the excess of revenues over expenses for 1994 of $130 million and 1997 of $2,403 has been adjusted to exclude the changes legislated by Bill 165 and Bill 99 respectively.

1998 Revenue
Where the money comes from



1998 Expenses
Where the money goes



A new funding strategy was adopted in 1998 to ensure the elimination of the unfunded liability by the year 2014. The new funding strategy provides that a larger portion of employer premiums be used to pay down the unfunded liability than was done in the past. The strategy also requires that premiums for all rate groups be set at the "full target level," that is, the level required to cover the full costs of new claims, including administrative charges and unfunded liability charges.

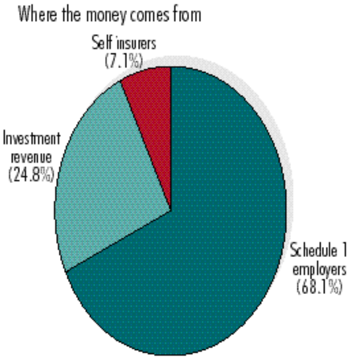
The major expense incurred by the WSIB is the benefits paid and due to be paid on claims related to injuries that occurred in the course of employment or for a recognized occupational disease. Benefit costs include compensation for loss of earnings and/or non-economic loss benefits for permanent impairment, payments of health care expenses, assistance to facilitate labour market re-entry services, and survivors' benefits in the case of a fatality. Expenses also include administrative and other expenses that are incurred by the WSIB in the course of managing its various functions and responsibilities under the Act, as well as payments to meet legislated obligations and commitments.

Operational summary

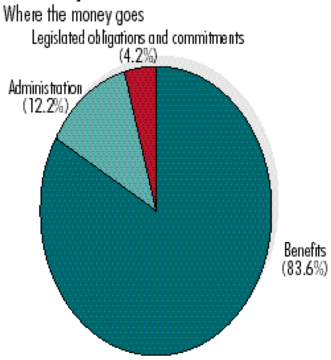
In 1998 the WSIB adopted a revised format for reporting operating results designed to more clearly disclose the results of current operations and the application of the unfunded liability premiums. The WSIB had an excess of revenues over expenses of $959 million for the year ended December 31, 1998, an increase of $341 million or 55.2 per cent over 1997, before taking into account the changes legislated by Bill 99. It was the fourth consecutive year with an excess of revenues over expenses applied to reduce the unfunded liability. At $959 million, the excess of revenues over expenses was higher than the component of the premium revenue levied on employers to retire the unfunded liability by $29 million. The full amount of the unfunded liability premiums levied on employers of $930 million was applied to reduce the unfunded liability. Revenues from current operations decreased by $16 million to $2,719 million. The decrease was attributed to the lower gross premium revenue resulting from the reduction in the current operations component (current claims and overhead) included in the 1998 average premium rate. The current operations component of the 1998 average premium rate was $1.59, compared to $2.01 in 1997. The decrease in gross premium revenue was offset by a $225 million reduction in the provision for net experience rating refunds and an increase in investment income of $148 million resulting from the robust performance of capital markets in the first half of 1998.

Premiums levied to retire the unfunded liability increased by $247 million and reflect the higher unfunded liability component included in the 1998 average premium rate.

1997 Revenue
Where the money comes from



1997 Expenses
Where the money goes



Summary of Operations For the Year ended December 31, 1998
($ millions)

Current Operations	1998	1997	Increase/ (Decrease) %
Revenues			
Premiums	$ 1,722	$ 1,886	(8.7)
Investment	997	849	17.4
	2,719	2,735	(0.6)
Expenses			
Benefits	2,229	2,342	(4.8)
Administration	336	341	(1.5)
Legislated obligations and commitments	125	117	6.8
	2,690	2,800	(3.9)
Excess/(deficiency)of revenues over expenses from current operations	$ 29	$ (65)	144.6
Premiums for unfunded liability	930	683	36.2
Excess of revenues over expenses applied to reduce the unfunded liability	$ 959	$ 618	55.2

Note: For comparison purposes, the changes legislated by Bill 99 of $1,785 million for 1997 have been excluded.

WSIB expenses were lower than last year's level by $110 million or 3.9 per cent. The decrease is due to the lower benefits and administration expenses partially offset by an increase in legislated obligations and commitments.

Benefit costs, together with the increase in the provision for the Injured Workers' Retirement Fund, decreased by $113 million or 4.8 per cent to $2,229 million, mainly due to a decline in future economic loss supplements and other pre Bill 99 income support supplements partially offset by higher survivor and health care benefits. Expenses related to legislated obligations and commitments amounted to $125 million, an increase of 6.8 per cent year over year. The increase is mainly due to the additional funding provided to the Occupational Health and Safety Act programs, the Workplace Safety and Insurance Appeals Tribunal and Safe Workplace Associations.

Cash flow

The reporting format for the statement of cash flows for 1998 has been revised to more clearly disclose cash flows for current operations and for retiring the unfunded liability. The $276 million net cash shortfall from operations in 1998 was due to a decrease in current premium receipts and an increase in cash expenses. These were partially offset by higher unfunded liability premium receipts.

The decrease in current premium receipts was primarily due to the reduction in the current component of the average premium rate to $1.59 in 1998 from $2.01 in 1997. The increase in cash payments was mainly due to the reinstatement of spousal benefit payments legislated by Bill 99, the implementation costs for Bill 99 and the new service delivery model, which were paid in 1998 but provided for in 1997, and higher funding for Safe Workplace Associations and the Occupational Health and Safety Act . The higher unfunded liability premium receipts reflect the increase in the unfunded liability component of the average premium rate to $1.00, compared to $0.84 in 1997.

The WSIB Insurance Fund was established to provide a reserve to fund benefit payments to injured workers in respect of injuries sustained. Cash revenues in excess of current benefit, administrative and other payments are invested to provide for these payments. To meet the cash shortfall from current operations in 1998, there was a cash transfer of $286 million from the investments portfolio to current operations in the last quarter of 1998. No cash transfers were made in 1997.

As a result of the cash transfer from the Insurance Fund, there was an increase in cash and cash equivalents of $148 million in 1998, compared to a decrease in cash and cash equivalents of $179 million in 1997.

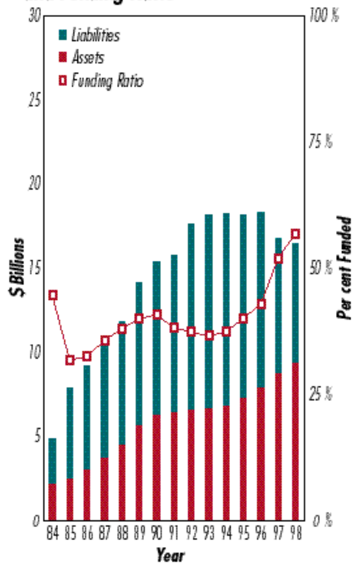
Unfunded liability

In 1998, total assets increased by $617 million (7.1 per cent) to $9,338 million, while total liabilities decreased by $342 million (2.0 per cent) to $16,436 million. The unfunded liability decreased by the excess of revenues over expenses of $959 million and stood at $7,098 million at December 31, 1998. This represents a funding ratio of 56.8 per cent, compared to 52.0 per cent for 1997, and is a reduction in the unfunded liability of $4,434 million from 1993 when the funding ratio was 36.6 per cent. This improvement represents a 55.2 per cent increase in the funding ratio compared to 1993.

The reduction in the unfunded liability is explained below through an actuarial reconciliation of the unfunded liability position. The reconciliation highlights the factors that influenced the change in the funded position. These factors include amendments to the Act, revised WSIB policies and adjudication practices, minor changes to the actuarial methods, investment results, and variations in experience from expected results. The major factors affecting the reduction in the unfunded liability in 1998 are shown in the following table.

A review of the benefits liability, asset composition and net unfunded liability and funding status of the WSIB from 1984 to 1997 is provided below:

Summary of Assets and Liabilities and Funding Ratio



Actuarial Reconciliation of the Change in the Unfunded Liability

($ millions)

		1998
Unfunded liability at beginning of year	$	8,057
Plus / (Minus):		
Expected investment income on the unfunded liability		569
Premiums allocated to reduction of the unfunded liability		(930)
Experience losses (gains) resulting from		
- indexation of benefits less than expected		(231)
- higher than expected interest rates		(400)
- prior years' claims experience & other sources		88
- current year's claims experience		(181)
Changes in valuation assumptions		126
Unfunded liability at end of the year	$	7,098

Sensitivity of actuarial assumptions

The actuarial assumption most susceptible to change is the investment return. Based on the projected cash flows of the WSIB, the approximate impact of a ½ per cent change in the assumed future rate of investment income would be to change the benefits liability by $625 million.

The WSIB has developed a new funding strategy to eliminate the unfunded liability by the year 2014 which was used to set 1999 premium rates. The main features of the WSIB's new funding strategy are:

- elimination of the unfunded liability by the year 2014
- consolidation of the past unfunded liability at the Schedule 1 level, providing financial relief on a one-time basis to industry classes in need (such as the construction industry)
- amortization of future gains and losses over a short period of time (up to five years), with the industry classes being responsible for their own losses
- premium rates for the next three years to include an unfunded liability amortization charge sufficient to meet the WSIB's funding requirements and address economic conditions
- setting of premium rates for all rate groups at full target level, which means that employers pay the full cost of new claims including administrative costs and the unfunded liability charges
- formal review of the funding strategy every three to four years, with annual monitoring during the rate-setting process.

While there are various possible methods available to eliminate the unfunded liability, the WSIB has chosen an approach that emphasizes the early application of payments towards the unfunded liability.

The advantages of this approach are as follows:

Fiscally responsible : early application of the required amount has the greatest impact in reducing the unfunded liability and has a more favourable effect on future investments. Not applying the required amounts now could mean that investment income would have to be used in the future to meet operating costs.

Allows for reduction in rates : current conditions permit higher initial unfunded liability payments to be accomplished while still reducing premium rates immediately for the vast majority of employers.

Protects workers and employers : should the economic climate deteriorate in the future, it will still be feasible to meet the 2014 unfunded liability target date without exposing the employer community to premium rate increases.

Allows for greater future flexibility : this plan gives the WSIB the flexibility to adjust rates downward.

The WSIB believes that its new funding strategy represents a financially responsible approach that is consistent with the requirement under the Act not to unfairly burden any one sector.

Premium revenue

Premiums are levied on Ontario employers' payrolls to cover the costs of current year's claims and overhead expenses. Schedule 1 employers also have a component built into their premium rate that contributes towards the reduction of the WSIB's unfunded liability. The 1998 average premium rate, before experience rating adjustment, was $2.59 per $100 of assessable payroll, a decrease of nine per cent from the average rate of $2.85 in 1997. The unfunded liability component included in the 1998 average premium rate was $1.00, compared to $0.84 in 1997, an increase of 19 per cent to support the earlier retirement of the unfunded liability.

Total premium revenue amounted to $2,652 million in 1998, $83 million more than the previous year. However, current premiums were lower, primarily due to the nine per cent reduction in the average premium rate of Schedule 1 employers. Lower provisions for experience rating net refunds and bad debts and an increase in interest, penalties and reimbursements from Schedule 2 employers partly offset the lower current premiums.

Premium Revenue for the year ended December 31, 1998
($ millions)

	1998	1997	Increase/ (Decrease)%
Schedule 1			
Current premiums	$ 1,544	$ 1,977	(21.9)
Experience rating net refunds	(125)	(350)	64.3
Interest and penalties and bad debts	55	15	266.7
	1,474	1,642	(10.2)
Self-insurers	248	244	1.6
Total current premiums	1,722	1,886	(8.7)
Premiums for unfunded liability	930	683	36.2
Total premium revenue	$ 2,652	$ 2,569	3.2

Year over year, Ontario's labour force rose by 2.9 per cent and employment increased by 3.9 per cent. Employment increased in all major industry sectors with the exception of primary industries, which declined 12.2 per cent, and the trade sector, which declined 0.1 per cent. Across industry sectors in Ontario, the agriculture, services and manufacturing sectors had the largest year over year increase at 8.0 per cent, 5.5 per cent and 5.3 per cent respectively. Provincial labour income increased by 3.5 per cent while the average weekly earnings rose by 0.7 per cent.

As a result of Ontario's economic growth, Schedule 1 assessable payrolls increased by $4.7 billion or 5.1 per cent in 1998 to $96.2 billion. Current premiums, however, did not increase due to the nine per cent reduction in the average premium rate.

Experience rating net refunds decreased by $225 million or 64.3 per cent, resulting from revisions made to fairly reward improvements in employers' accident performance, and lower gross premiums for Schedule 1 employers.

Benefits

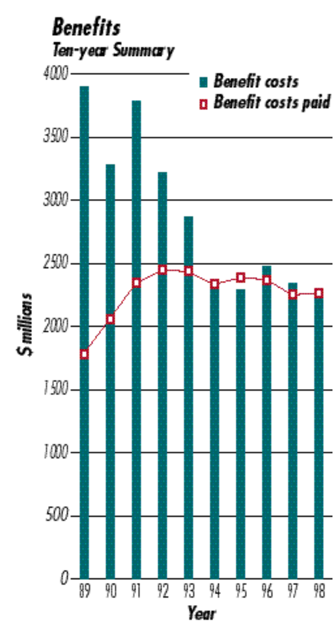
Benefit cost is an actuarial estimate of the costs related to reported and unreported compensable injuries occurring in the year, together with adjustments to the estimates of previous years. The present value of estimated future benefit payments constitutes the benefits liability and represents the WSIB's obligation in relation to current and prior years' injuries.

Both benefits liability and benefit costs are affected by various factors, such as changes in legislation, adjudication policies and practices, effectiveness of health care and return-to-work programs and economic conditions.

The overall benefits liability decreased by $85 million in 1998, mainly due to lower than expected indexation of benefits as a result of low inflation.

On January 1, 1998 benefit levels reduced from 90 to 85 per cent of pre-injury net average earnings for new claims. Also, under section 45 of the new Workplace Safety and Insurance Act, 1997, effective January 1, 1998, the WSIB will set aside 5 per cent, rather than 10 per cent, of a worker's loss of earnings benefits for his/her retirement fund for new claims.

A ten-year summary of the benefits expense and the benefits paid is shown below:



The injured worker may choose to contribute a further 5 per cent from his/her loss of earnings benefits. The amount is set aside only after the worker has received payments for loss of earnings for 12 continuous months. Since the Workplace Safety and Insurance Act, 1997 takes effect January 1, 1998, the reduction from 10 to 5 per cent of the worker's loss of earnings benefit set aside by the WSIB for new claims will be felt in 1999.

Change in the Benefits Liability For the year ended December 31, 1998
($ millions)

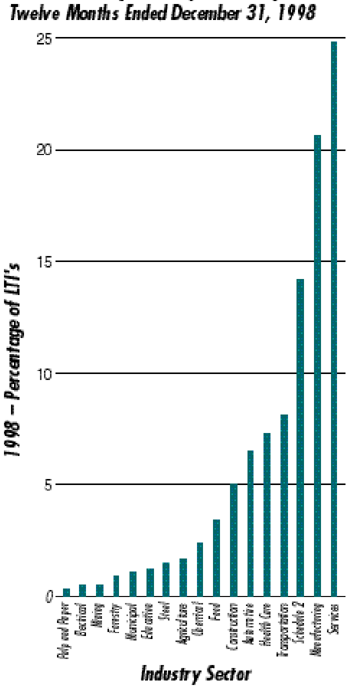
	1998	1997	Change
Benefit costs	$ 2,177	$ 2,294	$ (117)
Benefit costs paid	(2,262)	(2,249)	(13)
Changes legislated by Bill 99	-	(1,785)	(1,785)
Net (decrease) in benefits liability	(85)	(1,740)	1,655
Benefits liability, January 1	15,685	17,425	
Benefits liability, December 31	$ 15,600	$ 15,685	

Benefit costs, excluding the net increase in the Injured Workers' Retirement Fund, were $2,177 million in 1998, $117 million less than in 1997 and the lowest since 1985. The decrease is primarily due to labour market re-entry costs, which were lower than the rehabilitation expenses of 1997.

As a result of Bill 99, labour market re-entry costs were subdivided into two components, income support and external providers. Rehabilitation benefits, including Future Economic Loss supplements in effect under legislation prior to Bill 99, are no longer payable for new injuries occurring on or after January 1, 1998. Under Bill 99, a worker is entitled to receive loss of earnings benefits if he/she is cooperating in all aspects of a labour market re-entry assessment or plan. These payments are included as short-term loss of earnings benefits. As a result, the income support liability decreased by $262 million at December 31, 1998. Since the payments made in 1998 on account of income support totalled $198 million, the benefit cost was a reduction of $64 million.

Compared to 1997, benefits paid in the year for survivor benefits increased by $94 million as a result of the Bill 99 spousal benefit reinstatement, while payments for short-term disability were $12 million higher due to higher temporary total and partial benefit payments. These higher payments were partly offset by lower labour market re-entry payments, which decreased $83 million, and the decrease in health care payments of $10 million. Overall, benefits paid in 1998 were $2,262 million, $13 million more than in 1997.

Lost-time Injuries by Industry Sector
Twelve Months Ended December 31, 1998



Allowed lost-time injuries

The number of allowed lost-time injuries for accidents registered for 1998 decreased by 4.5 per cent compared to 1997. Lost-time injuries based on the new industry sectors registered for 1998 and 1997 are presented in the table, and the chart below.

Lost-time Injuries	1998	1997	Increase/ (Decrease) %
Agriculture	1,626	1,677	(3.0)
Automotive	6,338	7,582	(16.4)
Chemical/Process	2,296	2,204	4.2
Construction	4,869	4,930	(1.2)
Education	1,127	1,352	(16.6)
Electrical	455	436	4.4
Food	3,283	3,299	(0.5)
Forestry	835	773	8.0
Health Care	7,066	7,402	(4.5)
Manufacturing	20,038	20,580	(2.6)
Mining	524	537	(2.4)
Municipal	1,088	1,156	(5.9)
Pulp & Paper	330	346	(4.6)
Services	24,144	24,488	(1.4)
Steel	1,499	1,710	(12.3)
Transportation	7,906	8,287	(4.6)
Schedule 2	13,766	15,047	(8.5)
	97,190	101,806	(4.5)

Administrative and other expenses

Administrative expenses were $336 million, a $5 million decrease from 1997. In 1997, a special provision of $42 million was provided for the realignment of staff to improve customer service, to centralize business functions, and to increase the efficiencies of core business activities for Bill 99 implementation, and for the Year 2000 Project. In 1998 a restructuring provision of $6 million has been established to cover the costs of a business redesign initiative and associated staff realignment expense. Salary and fringe benefit costs were higher by $9 million as a result of the implementation of the new service delivery model. Miscellaneous expenses increased by $4 million from 1997 mainly due to an increase in change management costs and research grants.

Legislated obligations and commitments

Under the Workplace Safety and Insurance Act, 1997 , effective January 1, 1998, the WSIB is obligated to reimburse the Government of Ontario for the administrative costs of the Occupational Health and Safety Act . In addition, the WSIB is obligated to fund the operating costs of the Workplace Safety and Insurance Appeals Tribunal, the Offices of the Worker and Employer Adviser and the Mine Rescue Stations. The WSIB is also committed to provide funding for the Institute for Work and Health and Ontario's health and safety associations.

In 1997 and prior years, the WSIB was required to reimburse the Government of Ontario for only a percentage of the administrative cost of the Occupational Health and Safety Act , and to fund the above agencies as well as the Workplace Health and Safety Agency and the Occupational Disease Panel. Under Bill 99, the limit on the recovery of Occupational Health and Safety Act administrative costs by the Ontario Government has been removed and the WSIB will provide full funding within three years commencing in 1997. Effective January 1, 1998, the WSIB assumed the assets, liabilities and program responsibilities of the Workplace Health and Safety Agency while the Occupational Disease Panel was abolished by Bill 99.

These expenses amounted to $125 million, an increase of $8 million or 6.8 per cent from 1997. This increase relates to higher funding for the Safe Workplace Associations to carry out injury and illness prevention services in Ontario's workplaces, and increased funding for Occupational Health and Safety Act programs resulting from higher reimbursement of administrative costs to the Government of Ontario.

Investments

The WSIB's investments provide a reserve to fund benefit payments to injured workers. Investments comprise a broadly diversified portfolio of investments including Canadian and foreign equities, high-grade fixed income securities, real estate, and cash and short-term investments.

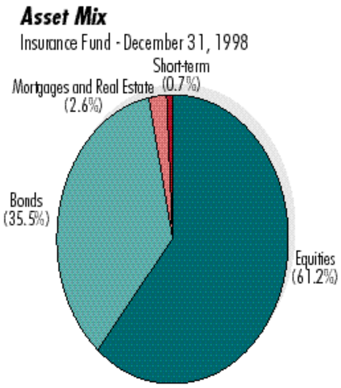
The Statement of Investment Policy & Goals (SIP&G) for the Insurance Fund stipulates that the SIP&G must be reviewed and approved by the Board of Directors no less than annually. In 1998 the SIP&G was reviewed and approved by the Board in May and again in December. The purpose of the SIP&G is to define investment policies, principles, and eligible investments and a prudently diversified asset mix appropriate to the needs and objectives of the Fund, taking into account the nature of its liabilities and obligations, as well as the return prospects and risks of alternative investment policies. In addition, the SIP&G defines the management structure and procedures adopted for the ongoing prudent and effective management of the Fund.

The selection of investments and investment managers for the Fund is made with consideration given to the overall context of the investment portfolio without undue risk of loss or impairment and with a reasonable expectation of fair return or appreciation given the nature of the investment.

The inflation-related investment return objective of the Fund is to achieve a total annualized "real" rate of return, the return which exceeds the prevailing rate of inflation, by at least 3 per cent on average over the long term.

1998 was a year beset by continuing fragile Asian economies, debt default and economic chaos in Russia, unfolding problems in the Brazilian economy, currency and stock market, and the near-collapse of a major hedge fund. Not surprisingly, world capital markets endured high volatility and sharply contrasting returns throughout the year.

The asset mix of the Fund at December 31, 1998 based on market value is shown below.



Canadian stock investors suffered a disappointing year as the Toronto Stock Exchange 300 Index gyrated through a strong first half, a third quarter collapse and a strong late-year rally to close down 1.6 per cent overall. In contrast, holders of Canadian bonds enjoyed solid yield as bonds continue to decline. The benchmark Scotia Capital Markets Universe Bond Index returned a solid 9.2 per cent for the year.

In foreign equity markets, U.S. stocks continued to surprise many market pundits, recording a spectacular 37.7 per cent annual return in Canadian dollar terms. European markets virtually matched the strong U.S. gains while the major markets of the Pacific region, as represented by the MSCI Pacific Index, rebounded to post a respectable 9.7 per cent.

Buoyed by its higher foreign equity weighting, the Insurance Fund marked a 11.4 per cent return on market value in 1998 – a fourth consecutive year of double-digit returns. On an annualized basis, the Fund's return on market value exceeds 11 per cent for all cumulative periods out to 10 years as illustrated in the following table:

(Per cent)	One Year	Three Years	Five Years	Ten Years
Investment Fund return	11.4	14.7	11.9	12.1
Return above inflation	10.4	13.4	10.7	9.7

The market value of the Insurance Fund was $10,704 million at December 31, 1998, an increase of $657 million on the year.

The Year 2000 problem

Some computers and microchips contain programming that makes them incapable of understanding the date 2000, or using it correctly in calculations. These computers use the last two digits to represent years. When 99 (1999) rolls over at midnight on December 31, 1999 to 00 (2000), computers that have not had this programming modified may conclude that the date is 1900. This may lead to a range of malfunctions or erroneous calculations.

There are a number of related critical dates, so the Year 2000 issue could cause problems before, on or after January 1, 2000. The Year 2000 problem is without precedent and resolution plans change as new information becomes available.

At the WSIB

The WSIB has a project team in place to protect and maintain WSIB business from threats posed to critical date-sensitive systems and equipment by the Year 2000 date change. The program is on schedule for meeting the business requirements of the WSIB, our clients and our partners. It is anticipated that the Year 2000 will not jeopardize our ability to conduct WSIB critical business.

The conversion of business-critical mainframe applications was completed in December 1998. Business-critical application testing will continue through September 1999. An inventory of business area systems and devices was conducted in 1998. Assessment, replacement, upgrade or decommission activities are currently in progress, including electronic interfaces with our external business partners. Critical WSIB business upgrades for the Year 2000 will be completed by year end 1999. Appropriate risk management procedures are being developed to mitigate any impact on the WSIB and its clients caused by the Year 2000 problem.

The total cost of the program is estimated to be $68 million, comprised of $47 million for specified programs and $21 million in capital expenditures. The WSIB has incurred a total of $22 million of these expenditures as of December 31, 1998.

Outlook

In 1999 the Ontario economy is expected to continue to grow at a rate of between 2 to 3 per cent. Employment levels are anticipated to increase in all sectors with the most significant growth in the construction and manufacturing sectors. Although total assessable payroll is forecasted to increase, premium revenue is expected to remain unchanged as a result of declining premium rates.

New prevention programs are being developed including improved accident and illness data-capture mechanisms; review of employers' premium incentive programs; and, further alignment of the health and safety system to ensure that the efforts of all provincial health and safety agencies are coordinated and to provide the most effective services.

The WSIB's increased emphasis on injury and illness prevention and prevention incentive programs are expected to reduce the number of registered lost-time injuries, resulting in a decrease in benefit costs and continuing the trend experienced in the last three years.

The WSIB is also taking a fresh look at the workplace insurance system with the aim of providing clients with the best possible products and services. Specifically, systems and partnerships are being developed to encourage workplace parties to take greater responsibility for early and safe return-to-work and disability management.

One initiative aimed at increasing knowledge and resources in the province is a partnership with British Columbia-based NIDMAR, the National Institute of Disability Management and Research. Under this agreement, the WSIB has funded NIDMAR with a one-time operational grant of $250,000. This grant will help to support NIDMAR's Ontario office and new initiatives in eastern Canada. The WSIB's partnership includes representation on NIDMAR's Eastern Canada Advisory Board.

The process of strategic business evaluation and planning is continuing as the WSIB refines its understanding of how it must change the way it does business to meet the future needs of Ontario workers and employers. Critical priorities for 1999 have been identified, and a 1999 business plan developed to ensure that 1998 momentum is maintained.

In addition, the WSIB continues to improve service delivery by developing and refining the new service delivery model first implemented in 1998.

Priorities for 1999 include:

- making changes to the Workwell audit program based on a 1998 review
- including injury and illness prevention obligations in supplier purchasing agreements
- establishing a Prevention Best Practices information warehouse
- expanding the Safe Communities Incentive Program (SCIP)
- developing new incentives to encourage early and safe return to work
- undertaking a comprehensive consultation with all health care providers to facilitate the delivery of quality care to injured workers
- setting an agenda for ongoing review and streamlining of policy
- reviewing and updating fraud policy
- clarifying eligibility criteria for Schedules 1 and 2
- developing and implementing a construction industry strategy
- implementing a new corporate Web site to provide our clients with detailed, up-to-date, online information about the WSIB
- providing occupational health and safety training for all WSIB staff.

Upon completion of the first year of its five-year strategic plan, the WSIB is well positioned to make significant gains in 1999 toward achieving its vision – the elimination of all workplace injuries and illnesses.

Balance sheet

December 31, 1998

($ millions)

	1998	1997
ASSETS		
Cash and cash equivalents	$ 61	$ -
Receivables	143	235
Investments (note 3)	8,607	8,029
Injured Workers' Retirement Fund (note 4)	273	221
Capital and other assets (note 5)	254	236
	$ 9,338	$ 8,721
LIABILITIES		
Bank indebtedness (note 6)	$ -	$ 87
Payables and accruals	489	710
Mortgage payable (note 7)	74	75
Injured Workers' Retirement Fund (note 4)	273	221
Benefits liability (note 8)	15,600	15,685
	16,436	16,778
UNFUNDED LIABILITY	(7,098)	(8,057)
	$ 9,338	$ 8,721

On behalf of the Board of Directors:

Glen Wright, Chair
Director

Eileen Mercier,
Director

The accompanying notes form an integral part of the financial statements.

Statement of operations & unfunded liability

For the Year Ended December 31, 1998

($ millions)

CURRENT OPERATIONS	1998	1997
REVENUES		
Premiums for current year	$ 1,722	$ 1,886
Investment (note 3)	997	849
	2,719	2,735
EXPENSES		
Benefit costs (note 8)	2,177	2,294
Net increase in the Injured Workers' Retirement Fund (note 4)	52	48
Administrative and other (note 9)	336	341
Legislated obligations and commitments (note 10)	125	117
	2,690	2,800
EXCESS / (DEFICIENCY) OF REVENUES OVER EXPENSES FROM CURRENT OPERATIONS	29	(65)
Premiums for unfunded liability	930	683
Changes legislated by Bill 99 (note 8)	-	1,785
EXCESS OF REVENUES OVER EXPENSES APPLIED TO REDUCE THE UNFUNDED LIABILITY	959	2,403
Unfunded liability, beginning of year	8,057	10,460
Unfunded liability, end of year	$ 7,098	$ 8,057

The accompanying notes form an integral part of the financial statements.

Statement of cash flows

For the Year Ended December 31, 1998

($ millions)

	1998		1997	
INVESTING CASH FLOWS				
Investment income	$ 445		$ 340	
Sales of investments	2,851		9,622	
Purchases of investments	(2,872)		(10,010)	
Net cash provided / (shortfall) from investing activities		424		(48)
OPERATING CASH FLOWS				
Current Operations				
Cash received from:				
Current premiums	1,640		1,884	
Cash paid to:				
Claimants, survivors and care providers	(2,262)		(2,249)	
Injured Workers' Retirement Fund	(52)		(48)	
Employees and suppliers for administrative goods and services	(364)		(299)	
Others under legislated obligations	(123)		(100)	
	(2,801)		(2,696)	
Net cash required by current operations		(1,161)		(812)
Cash received from unfunded liability premiums		885		681
CASH REQUIRED BY OPERATIONS		(276)		(131)
Increase / (decrease) in cash and cash equivalents		148		(179)
Cash and cash equivalents, beginning of year		(87)		92
Cash and cash equivalents, end of year		$ 61		$ (87)

The accompanying notes form an integral part of the financial statements.

Notes to the financial statements

December 31, 1998

1. NATURE OF OPERATIONS

The Workplace Safety & Insurance Board (WSIB), formerly the Workers' Compensation Board, is a statutory corporation first created by an Act of the Ontario Legislature in 1914. It is responsible for administering the Workplace Safety and Insurance Act, 1997 . Bill 99, the Workers' Compensation Reform Act , received royal assent and was passed into law on October 10, 1997. It came into force on January 1, 1998, introducing wide-ranging changes to the workplace safety and insurance system in Ontario and changing the name of the Workers' Compensation Board to Workplace Safety and Insurance Board (WSIB) effective January 1, 1998.

The WSIB promotes the prevention of injuries and illnesses in Ontario workplaces and provides compensation to workers who sustain injuries arising from and in the course of employment, or who contract an occupational disease.

The WSIB administers the Workplace Safety and Insurance Act, 1997 , for two groups of employers referred to as Schedule 1 and Schedule 2. Schedule 1 relates to services and industries in which employers are insured through "collective liability" and are required to contribute to the WSIB Insurance Fund whereas Schedule 2 relates to employers who are "self-insured," in that they are individually liable. The Federal Government, which is covered under a separate agreement with Human Resources Development Canada, is also treated as a Schedule 2 employer. The WSIB pays the actual cost of claims for Schedule 2 workers and is reimbursed by those employers for the claims paid, as well as for the cost of prevention activities and administering the claims. In addition, investment revenue is earned from a diversified investment portfolio held as a reserve to meet future obligations on existing claims.

The WSIB does not receive government funding or other assistance and raises funds through premium rates being applied to the payrolls of Ontario's Schedule 1 employers covered under the Workplace Safety and Insurance Act, 1997 , in order to provide compensation to workers or survivors of the workers who are injured in the course of employment or who contract an occupational disease.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires 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 year. Actual results could differ from these estimates.

The significant accounting policies are summarized as follows:

Cash and cash equivalents

Cash and cash equivalents are funds consisting of cash and money market instruments with maturities up to three months.

Investments

a) Bonds, coupons and mortgages

Bonds, coupons and mortgages are carried at amortized cost. In the case of mortgages, amortized cost is adjusted for principal repayments. Realized gains and losses on the sale of bonds, coupons and mortgages are deferred and amortized over the lesser of 20 years or the period to maturity of the security sold.

b) Equities and real estate

Equities and real estate are carried at cost adjusted towards fair value, using a five-year moving average market method. Realized gains and losses are deferred and amortized over a four-year period.

c) Short-term securities

Short-term securities consist of money market instruments with maturities between three and twelve months and are carried at cost. Gains and losses from sales are included in income in the year they occur.

d) Foreign currency translation

Transactions in investments denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the time of the transaction. The cash and cash equivalents are translated to Canadian dollars at the exchange rate in effect at the balance sheet date.

Fair values of investments

Fair values of investments are determined as follows:

Bonds and equities are valued at year-end quoted prices where available. Where quoted prices are not available, estimated fair values are calculated based upon the yields and values of comparable marketable securities.

Short-term notes, treasury bills and term deposits maturing within a year are valued at cost, which together with accrued interest income approximates fair value given the short-term nature of these instruments.

Real estate is valued based on appraised values conducted on a cyclical basis.

Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the WSIB's proportionate share of underlying net assets at fair values determined using closing market prices.

Fair value of other financial assets and liabilities

The fair values of other financial assets and liabilities, being cash, receivables, bank indebtedness, payable and accrued liabilities approximate their carrying values due to the short-term nature of these instruments.

Injured Workers' Retirement Fund

Investments held in the Injured Workers' Retirement Fund are carried at fair value. Changes in fair values are taken into income of the Injured Workers' Retirement Fund in the year they occur.

Capital assets and depreciation

Capital assets are stated at cost. Capital assets are depreciated using the straight-line method at rates calculated to expense the cost of assets over their estimated useful lives which, in the case of buildings and equipment, are 20 years and 5 years respectively. Buildings are carried at cost and include development, financing and other costs capitalized prior to becoming fully operational, at which time depreciation commences.

Premium revenue for current operations and unfunded liability

Premium revenue is determined on the basis of estimated and actual payrolls for employers included in Schedule 1 of the Workplace Safety and Insurance Act, 1997 , adjusted for claim experience where relevant.

Schedule 2 employers are individually liable to pay the benefits under the Workplace Safety and Insurance Act, 1997, with respect to the workers employed. Reimbursements for claims paid and cost of administering the claims are included in the premiums of the WSIB.

Included in premium revenue are reimbursements by Schedule 2 employers for claims paid, as well as for the cost of administering the claims.

Under the Workplace Safety and Insurance Act, 1997, the Board shall determine the total amount of the premiums to be paid by all Schedule 1 employers with respect to each year in order to maintain the Insurance Fund under this Act.

Premiums for unfunded liability

Under the Workplace Safety and Insurance Act, 1997 , the WSIB determines premium rates to maintain the sufficiency of the Insurance Fund. In advance of the fiscal year, the WSIB notifies Schedule 1 employers of the methods used to calculate these rates, the premiums payable and the payment schedule. Premium rates include a specified component that is applied to reduce the unfunded liability.

Benefits liability

The benefits liability is determined annually through an actuarial valuation and represents a provision for future payments relating to claims incurred on or before December 31. The provision has been obtained by estimating future benefit payments in accordance with the adjudication practices in effect at December 31, 1998 and legislation enacted January 1, 1998.

The benefits liability does not include any provision for payment of claims relating to Schedule 2 as they are a liability of Schedule 2.

Provision has not been made for future administration costs of incurred claims. Similarly, provision has not been made for the cost of future claims for occupational diseases, or for the future cost of existing claims for diseases and injuries that are not currently considered to be work-related, but may in the future be considered to be work-related.

3. INVESTMENTS AND INVESTMENT REVENUE

The carrying value of investments comprises investments at a cost of $9,597 million (1997: $8,901 million) including accrued investment income, plus adjustments towards a fair value of $447 million (1997: $366 million), less unamortized net gains realized on the sale of investments of $1,437 million (1997: $1,238 million). Investments by category of investment are as follows:

($ millions)

	1998		1997	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Fixed Income Securities				
Bonds	$ 3,181	$ 3,847	$ 2,970	$ 3,564
Mortgages	6	6	6	6
	3,187	3,853	2,976	3,570
Equities				
Domestic	2,638	3,032	2,319	2,912
Foreign - U.S.	367	919	1,099	1,546
- Global	2,085	2,606	1,335	1,757
	5,090	6,557	4,753	6,215
Real Estate	255	271	228	236
Short-term Securities				
Money market instruments	1	1	-	-
Accrued investment income	74	74	72	72
	$ 8,607	$ 10,756	$ 8,029	$ 10,093

The WSIB engages in a securities lending program whereby securities are loaned to borrowers, approved by the WSIB and the custodian, for a fee, against high quality collateral. At December 31, 1998, the fair value of securities on loan was $2,505 million (1997: $1,841 million).

Foreign investments are exposed to currency risk. Derivative instruments are used for the sole purpose of hedging foreign currency transactions to better manage and reduce currency risk. Such instruments are valued at year-end market prices. The notional amount of foreign currency contracts hedging investments in foreign currencies totalled $321 million at December 31, 1998 (1997: $83 million). Their related fair value at year-end was $323 million (1997: $84 million). The contracts mature in the first three months of 1999.

Revenue by category of investment is as follows:

($ millions)

	1998	1997
Bonds	$275	$259
Equities	725	583
Mortgages	0	4
Short-term securities	2	6
	1,002	852
Injured Workers' Retirement Fund	15	10
Investment expenses	(20)	(13)
Investment revenue	$997	$849

In 1998, $612 million (1997: $519 million) of realized and unrealized net gains were amortized to investment revenue.

Bonds by term to maturity as at December 31:

($ millions)

	Up to 1 year	1 - 5 years	Term to maturity 5 - 10 years	Over 10 year	Less unamortized gain	1998	1997
Government bonds							
Carrying value		$1,443	$851	$786	$462	$2,618	$2,532
Fair value		1,465	900	862		3,227	3,076
Yield %		4.8	4.9	5.3		5.0	5.6
Corporate bonds							
Carrying value	$7	$225	$148	$220	$37	$563	$438
Fair value	7	228	151	234		620	488
Yield %	5.3	5.0	5.6	6.0		5.5	6.0
Total							
Carrying value						$3,181	$2,970
Fair value						3,847	3,564
Yield %						5.1	5.6

The average effective yield reflects the result obtained by dividing the estimated annual income of a security (based on its coupon or dividend rate) by its fair value at December 31.

4. INJURED WORKERS' RETIREMENT FUND

Under section 44 of the Workers' Compensation Act and Regulations of Ontario R.S.O. 1990 (which continues to apply to injuries and diseases prior to January 1, 1998), the WSIB sets aside funds equal to 10 per cent of every payment made to injured workers under section 43 of that Act. In accordance with the provisions of that Act, these funds are segregated from the WSIB's Insurance Fund and are invested to provide for retirement income benefits for injured workers.

Under section 45 of the new Workplace Safety and Insurance Act, 1997, effective January 1, 1998, the WSIB will set aside 5 per cent rather than 10 per cent of a workers' loss of earnings benefits for his/her retirement fund for new claims. The injured worker may choose to contribute a further 5 per cent from his/her loss of earnings benefits. The amount is set aside only after the worker has received payments for loss of earnings for 12 continuous months. Since the Workplace Safety and Insurance Act, 1997, took effect January 1, 1998, the 5 per cent set aside will first occur on January 1, 1999.

The fair value of the fund at December 31 is as follows:

($ millions)

	1998	1997
Cash	$ 4	$ 0
Bonds	114	106
Equities - Domestic	91	66
- Foreign Global	51	38
Money market instruments	11	9
Accrued investment income	2	2
	$ 273	$ 221

In 1998, the net increase in the Injured Workers' Retirement Fund was $52 million (1997: $48 million). This net increase resulted from funds set aside pursuant to section 44 of the Act in the amount of $44 million (1997: $43 million), together with $15 million (1997: $10 million) earned on its investments, less $7 million (1997: $5 million) paid as retirement pensions.

Bonds by term to maturity as at December 31:

($ millions)

	Term to maturity					
	Up to 1 year	1 - 5 years	5 - 10 years	Over 10 years	1998	1997
Government bonds						
Fair value		$38	$14	$25	$77	$82
Yield %		4.9	5.2	5.3	5.1	5.6
Corporate bonds						
Fair value	$2	$12	$10	$5	$29	$18
Yield %	5.3	5.4	5.8	6.2	5.7	6.1
Global bond pooled fund					$8	$6
Yield %					13.9	1.4
Total						
Fair value					$114	$106
Yield %					6.4	5.5

5. CAPITAL AND OTHER ASSETS

($ millions)

	1998		1997
	Cost	Net Book Value	Net Book Value
Buildings and leasehold improvements	$ 203	$ 165	$ 169
Equipment	133	32	16
	336	197	185
Other assets	57	57	51
	$393	$ 254	$ 236

Depreciation expense in 1998 was $20 million (1997: $15 million).

6. BANK INDEBTEDNESS

The bank indebtedness represents cheques issued before the end of the year which are outstanding, net of the cash balance. The WSIB maintains a $150 million line of credit with a commercial bank, which is unsecured.

7. MORTGAGE PAYABLE

The WSIB is a 75 per cent participant in the co-ownership agreement of its head office building. To partially fund the development and construction of the building, the WSIB entered into a long-term mortgage loan agreement in 1993. The mortgage loan is secured by the building and matures in the year 2015. The interest rate is fixed at 10.25 per cent per annum, compounded semi-annually.

8. BENEFITS LIABILITY AND BENEFIT COSTS

Benefits liability represents an actuarially determined provision for future benefit payments relating to incurred claims that were discounted to present value at the assumed net investment returns as shown below. Estimates of future benefit payments refer to both reported and unreported claims which have arisen from work-related injuries and occupational diseases that occurred on or before December 31, 1998 and are based on the level and nature of entitlement, as prescribed by legislation enacted January 1, 1998, and on adjudication practices in effect at December 31, 1998.

The benefits liability was determined using accepted actuarial practices in accordance with the standards established by the Canadian Institute of Actuaries.

The actuarial present value of future benefit payments reflects long-term estimates of economic and actuarial assumptions and methods, which were based upon past experience, modified for current trends. As these assumptions may change over time to reflect underlying conditions, it is possible that such changes could cause a material change in the actuarial present value of future benefit payments. The following key long-term economic assumptions were used in the actuarial valuation of the benefits liability:

	1998	1997
Inflation rate	4%	4%
Rate of indexation of benefits		
- Fully indexed	4%	4%
- Partially indexed	1%	1%
Net investment return		
- Fully indexed	3%	3%
- Partially indexed	6%	6%
Wage and health care costs escalation rate	5%	5%

Benefits liability provision for benefit costs and benefit costs paid in 1998 were as follows:

($ millions)

	1998							1997
		Labour Market Re-entry						
	Long-term Disability	Income Support	External Providers	Short-term Disability	Health Care	Survivor Benefits	Total	Total
Benefits liability, beginning of year	$11,401	$1,052	$213	$453	$1,129	$1,437	$15,685	$17,425
Benefit costs	1,353	(64)	37	317	371	163	2,177	2,294
Changes legislated by Bill 99								(1,785)
							17,862	17,934
Benefit costs paid during the year								
- Schedule 1	(1,198)	(185)	(42)	(241)	(206)	(173)	(2,045)	(2,034)
- Schedule 2	(109)	(13)	(3)	(41)	(23)	(21)	(210)	(210)
- Injured Workers' Retirement Fund	(7)	-	-	-	-	-	(7)	(5)
	(1,314)	(198)	(45)	(282)	(229)	(194)	(2,262)	(2,249)
Benefits liability, end of year	$11,440	$790	$205	$488	$1,271	$1,406	$15,600	$15,685

Benefit costs paid include the following:

($ millions)

	Schedule 1		Schedule 2	
	1998	1997	1998	1997
Long-term disability				
- Worker pensions	$ 578	$ 583	$ 63	$ 66
- Supplements	251	254	18	19
- Future economic loss	290	268	19	17
- Non-economic loss	79	91	9	11
	1,198	1,196	109	113
Labour market re-entry				
- Income support	185	252	13	18
- External providers	42	53	3	3
	227	305	16	21
Short-term disability	241	229	41	41
Health care				
- Health care	188	196	21	23
- Medical reports	18	18	2	2
	206	214	23	25
Survivor benefits	173	90	21	10
	$ 2,045	$ 2,034	$ 210	$ 210

Mortality was estimated based on the WSIB's mortality experience of 1991 - 1995 for injured workers and on the Ontario Life Tables adjusted on the basis of WSIB's mortality projections for survivors of deceased workers. Full provision has been made for the effect of future increases in the covered earnings ceiling and indexation of benefits.

Management believes the amount provided for future payments of incurred claims to be adequate. Long-term economic and actuarial assumptions and methods are reviewed annually at December 31 of each year, when independent actuarial valuations are performed. The actuarial cost of claims for reported and unreported work-related accidents that occurred in the year are recorded under benefit costs, together with adjustments, if any, resulting from the continuous review of entitlements, experience, or from changes in legislation, assumptions or methods.

Effective January 1, 1998, Bill 99 introduced the labour market re-entry program for 1998 and future claims, to replace a part of the vocational rehabilitation program. Accordingly, the benefits liability for rehabilitation of $1,265 million as at December 31, 1997 has been allocated to its component liabilities of provisions for income support ($1,052 million) and external providers ($213) million to reflect the changes in legislation.

9. ADMINISTRATIVE AND OTHER EXPENSES

Administrative and other expenses consist of the following:

($ millions)

	1998	1997
Salaries and employee benefits	$ 227	$ 218
Equipment depreciation and maintenance	22	19
Occupancy	29	28
Communication	11	10
Supplies and services	16	12
Miscellaneous	12	8
Travel and vehicle maintenance	5	4
Year 2000 project	8	0
	330	299
Restructuring	6	42
	$ 336	$ 341

10. RELATED PARTY TRANSACTIONS

Legislated obligations and commitments

Under the Workplace Safety and Insurance Act, 1997 , the WSIB is required to reimburse the Government of Ontario for the administrative cost of the Occupational Health and Safety Act. In 1998 the WSIB was required to fund the operating costs of the Workplace Safety and Insurance Appeals Tribunal, the Offices of the Worker and Employer Adviser and the mine rescue stations. The amounts of reimbursements and funding are determined and approved by the Minister of Labour and, in certain instances, the WSIB is directed by the Lieutenant Governor, through Orders in Council, to make these payments. The WSIB is also committed to provide funding for the Institute for Work and Health, Farm Safety Association and Safe Workplace Associations. The total amount of funding provided under these legislated obligations and commitments in 1998 was $125 million (1997: $117 million).

Investments

Included in investments are marketable fixed income securities issued by the Ontario provincial government and related corporations of $298 million (1997: $283 million).

Other

In addition to the legislated obligations and accident prevention expenses, the financial statements include amounts resulting from transactions conducted in the normal course of operations, with various Ontario government-controlled ministries, agencies, and Crown corporations with which the WSIB may be considered related. Such transactions are conducted on terms and conditions similar to those transactions with unrelated parties. Account balances resulting from these transactions are not significant.

11. COMMITMENTS AND CONTINGENCIES

Operating leases

At December 31, 1998, the WSIB was committed under non-cancellable operating leases requiring future minimum payments of approximately $8 million per year over the next 5 years and aggregating to $40 million thereafter.

Legal actions

The WSIB is party to various claims and lawsuits which are being contested. In the opinion of management, the outcome of such claims and lawsuits will not have a material effect on the WSIB.

Year 2000 Issue

The Year 2000 Issue arises from computing and microchip circuitry that use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900, or some other date, resulting in errors when calculations using Year 2000 are performed. In addition, similar problems may arise in some systems that use certain dates in 1999 to represent something other than a date. The effect of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant system malfunctions that could affect an entity's ability to conduct normal business operations. It is also not possible to be certain that all aspects of the Year 2000 Issue affecting the WSIB, including those related to the efforts of its customers, suppliers, or other third parties will be fully resolved.

12. PENSION PLANS

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

The WSIB Employees' Pension Plan

This is a contributory defined benefit pension plan which provides for partially indexed pensions based on years of service and earnings rates near retirement. The investment activities and the administrative and accounting matters of the pension plan are administered by the WSIB.

An independent actuarial valuation performed as of December 31, 1998 has determined that the pension plan is in a surplus position. The accrued pension obligations of the contributory defined benefit plan reflect management's estimates of salary escalations, investment rate of return, mortality of members, terminations, and the ages at which members will retire.

As at December 31, 1998 the pension plan's funded status was as follows:

($ millions)

	1998	1997
Pension assets	$ 962	$ 867
Accrued pension obligations	$ 701	$ 651

The WSIB Employees' Supplementary Pension Plan

This contributory defined benefit plan became effective on September 1, 1998 and was created to ensure that employees of the WSIB whose earnings exceed the threshold earnings for the maximum pension benefit permitted under the Income Tax Act (Canada) receive pension benefits based on their total earnings. The investment activities and the administrative and accounting matters of the supplementary pension plan are administered by the WSIB.

An independent actuarial valuation was performed as at December 31, 1998. The accrued pension obligations of the contributory defined benefit plan reflect management's estimates of salary escalations, investment rate of return, mortality of members, terminations, and the ages at which members will retire.

As at December 31, 1998 the pension plan's funded status was as follows:

($ millions)

	1998
Pension assets	$ 0.2
Accrued pension obligations	$ 5.0

Responsibility for financial reporting

The accompanying financial statements were prepared by management in accordance with generally accepted accounting principles, consistently applied, and include some amounts based upon management's best estimates and judgements. Any financial information contained elsewhere in the Annual Report is consistent with these financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are properly accounted for and safeguarded from loss. The Board of Directors has established an Audit Committee, to ensure that management fulfils these responsibilities. The Audit Committee meets periodically with management, internal auditors and external auditors to ensure that their responsibilities are properly discharged with respect to financial statement presentation, disclosure and recommendations on internal control.

The Internal Audit Branch performs audits designed to test the adequacy and consistency of the WSIB's internal controls, practices and procedures.

The external auditors, KPMG LLP, working under the direction of the Provincial Auditor, have performed an independent audit of the financial statements of the WSIB in accordance with generally accepted auditing standards. Their report outlines the scope of this independent audit and their opinion on the financial statements of the WSIB.

Eckler Partners Ltd., the independent consulting actuaries to the WSIB, express an opinion on the adequacy and appropriateness of the valuation of the WSIB's benefits liability.

David Williams
President and
Chief Executive Officer

Thomas Chan
Vice-President,
Finance and Corporate Services
and Chief Financial Officer

March 3, 1999

Auditors' report

KPMG

To the Workplace Safety and Insurance Board,
the Minister of Labour,
and to the Provincial Auditor

Pursuant to the *Workplace Safety and Insurance Act* which provides that the accounts of the Workplace Safety and Insurance Board (WSIB) shall be audited by the Provincial Auditor or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the balance sheet of the WSIB as at December 31, 1998 and the statements of operations and unfunded liability and cash flows for the year then ended. These financial statements are the responsibility of WSIB management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the WSIB as at December 31, 1998 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Ontario
March 3, 1999

Consulting actuaries' report

Eckler Partners Ltd.

Consulting Actuaries' Report on the Valuation of the
Benefits Liabilities of the Schedule 1 Insurance Fund of
The Workplace Safety and Insurance Board of Ontario as at December 31, 1998

We have determined the estimated present value as at December 31, 1998 of future payments for short-term disability, long-term disability, labour market re-entry, survivor benefits, health care and retirement income benefits under Schedule 1 on account of accidents that occurred on or before that date to be $15,600 million. We have examined the data upon which the calculations were based and found them to be sufficient and reliable for the purposes of the valuation and consistent with the WSIB's financial statements. We consulted with the Chief Actuary in selecting appropriate assumptions and methods for the valuation. As in previous valuations, the present value does not include provision for future claims related to occupational disease or for future expenses of administration.

The present value reported above includes the liability for benefits under Bill 162 which came into effect as of January 2, 1990. In last year's valuation, we modified our assumptions regarding the average percentage of permanent impairment of workers becoming eligible for compensation for non-economic loss under section 42, of the average percentage wage loss of workers becoming eligible for compensation for future loss of earnings under section 43, and of the portions of compensation for future loss of earnings under section 43 and of supplemental pensions under section 147(4) of the Act which will be continued following the reviews 24 months and 60 months after the benefits commence, to reflect actual experience to date. For the purpose of this valuation, we continue to use the same assumptions as in the last valuation.

The present value also takes into account the provisions of Bill 165 which came into effect as of January 1, 1995, which affected the indexing of compensation and which provided for additional pension for certain categories of injured worker.

The present value also takes into effect the amendments to the Act contained in Bill 99, which came into effect as of January 1998, which affects the indexing of compensation, provides for reinstatement of benefits to survivors whose benefits were terminated for reason of remarriage prior to April 1, 1985 and affects the level of compensation and the level of payments for loss of retirement income in respect of accidents which occurred on and after January 1, 1998.

The valuation was based on the provisions of the Workplace Safety and Insurance Act and on the WSIB's administrative practices in effect as of January 1, 1999. Full provision has been made for potential future increases in the covered earnings ceiling and in the level of compensation as provided under the Act by using a net investment return assumption of 3 per cent per annum with respect to fully indexed benefits and 6 per cent per annum with respect to partially indexed benefits. The rates of net investment return were determined on the assumption that investment income in excess of these rates will be required to finance indexation of those benefits related to inflation. The long-term rate of general price inflation assumed in the valuation was 4 per cent per annum, and the rate of indexation of benefits was therefore assumed to be 4 per cent per annum for fully indexed benefits and 1 per cent per annum for partially indexed benefits.

It was assumed that survival on loss of earnings benefits will follow WSIB experience for the years 1991-1996, modified after one year so that 6 per cent of lost-time accidents will still be receiving benefits after two years, decreasing at an average annual rate of 10 per cent until it reaches 60 per cent after six years from the date of the accident.

Except as described above, the methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. A complete description of the methods and assumptions employed in the valuation will be provided in our detailed report to the Board on the valuation.

In our opinion, the assumptions made in this valuation are appropriate, the methods employed are in accordance with sound actuarial principles and the amount of $15,600 million as at December 31, 1998 makes reasonable provision for future payments for short-term disability, long-term disability, labour market re-entry, survivor benefits, health care and retirement income benefits under Schedule 1 on account of accidents that occurred on or before December 31, 1998.

David A. Short, F.S.A., F.C.I.A. — Jill M. Flicht, F.S.A., F.C.I.A.

Actuaries with the firm of Eckler Partners Ltd.

March 3, 1998

Ten-year history

Workplace Safety and Insurance Board
Ten-Year Summary of the Statements of Operations and Unfunded Liability

($ millions)

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
REVENUES										
Premiums for current year (see note below)	$1,722	$1,886	$1,917	$1,953	$1,864	$1,969	$2,171	$2,505	$2,596	$2,678
Investment	997	849	711	593	499	521	453	450	440	409
	2,719	2,735	2,628	2,546	2,363	2,490	2,624	2,955	3,036	3,087
EXPENSES										
Benefits paid	2,262	2,249	2,371	2,385	2,331	2,435	2,444	2,342	2,059	1,782
Net increase (decrease) in benefits liability	(85)	(1,740)	50	(150)	(75)	400	760	1,440	1,220	2,117
Net increase in the Injured Workers' Retirement Fund	52	48	49	49	29	30	14	2	-	-
	2,229	557	2,470	2,284	2,285	2,865	3,218	3,784	3,279	3,899
Administrative and other	336	341	321	339	331	343	347	343	323	281
Legislated obligations	125	117	98	113	104	100	97	87	53	26
	2,690	1,015	2,889	2,736	2,720	3,308	3,662	4,214	3,655	4,206
EXCESS / (DEFICIENCY) OF REVENUES OVER EXPENSES	29	1,720	(261)	(190)	(357)	(818)	(1,038)	(1,259)	(619)	(1,119)
Premiums for unfunded liability (see note below)	930	683	693	700	487	314	357	-	-	-
Excess of revenues over expenses - applied to reduce the unfunded liability	959	2,403	432	510	130	(504)	(681)	(1,259)	(619)	(1,119)
Unfunded Liability beginning of year	8,057	10,460	10,892	11,402	11,532	11,028	10,347	9,088	8,469	7,350
Unfunded Liability end of year	$7,098	$8,057	$10,460	$10,892	$11,402	$11,532	$11,028	$10,347	$9,088	$8,469

Note: Premiums were not segregated into current and unfunded liability components for 1989 to 1991.

OTHER STATISTICS

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Schedule 1										
Average rate of assessment (per $100 of payroll)	$2.59	$2.85	$3.00	$3.00	$3.01	$2.95	$3.16	$3.20	$3.18	$3.12
Total assessable payroll ($ millions)	$96,205	$91,497	$86,844	$86,065	$82,818	$84,243	$83,048	$80,727	$80,352	$79,475
Number of WSIB employees as at December 31	4,057	3,966	4,373	4,597	4,603	4,751	4,909	5,139	5,138	4,611
Number of registered claims	342,687	341,178	345,606	371,837	370,444	368,485	377,019	409,946	473,407	467,212

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Workplace Safety & Insurance Board

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