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Management's discussion & analysis and financial statements (PDF)

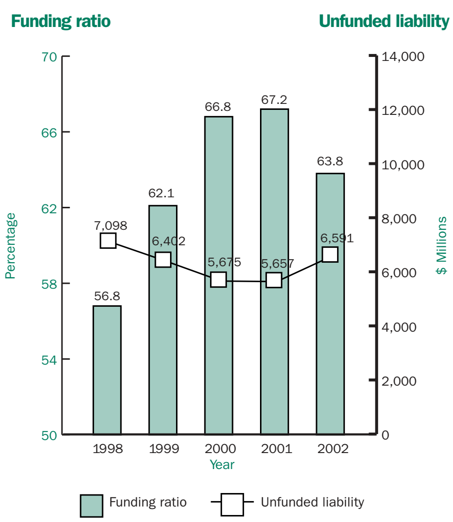
WSIB ONTARIO CSPAAT

Workplace Safety & Insurance Board

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

www.wsib.on.ca

Management's discussion and analysis



Introduction

This section provides discussion and analysis of information presented in the audited financial statements: Balance Sheet, Statement of Operations and Unfunded Liability, and Statement of Cash Flows. The narrative that follows should be read together with those financial statements. Our aim is to give the reader an understanding of the financial results from a WSIB management perspective.

Funding and investment strategies

The WSIB has had a long-term funding strategy in place for its collective liability insurance plan. This strategy is designed to ensure that the full cost of the system is paid for over a reasonable period of time. Revisions and reviews are performed regularly to reflect changing economic conditions and to adjust for short-term considerations, which may arise from a variety of factors inside or outside of the WSIB.

Key objectives of the funding strategy include:

- security of future benefits for injured workers,
- appropriate premium rates for employers, and
- a target date of 2014 to eliminate the unfunded liability.

That part of the liability that is "unfunded" means that sufficient funds are not available today to pay for the full future cost of all the claims currently in the plan. Latest results show that four of the other 11 Canadian workers' compensation systems also have recorded unfunded liabilities.

The funding strategy affects the timing and amount of premiums required from employers, and is driven by the total cost of the system. The cost of the workplace safety and insurance plan is determined by several factors, including:

- the frequency and severity of injuries and illnesses,
- legislative requirements,
- health and safety and return-to-work practices in workplaces,
- administrative efficiency and effectiveness of the WSIB,
- economic conditions.

The cost of the plan is offset by investment returns.

At December 31, 2002, the unfunded liability increased to $6,591 million, compared to $5,657 million at December 31, 2001. At the end of 2002, the funding ratio (the ratio of assets to liabilities) stood at 63.8 per cent. Higher health-care costs and the large decline in equity markets that began in 2000 impacted investment markets throughout the world in 2002, and made adjustments to unfunded liability projections from 2002 to 2014 necessary in 2002.

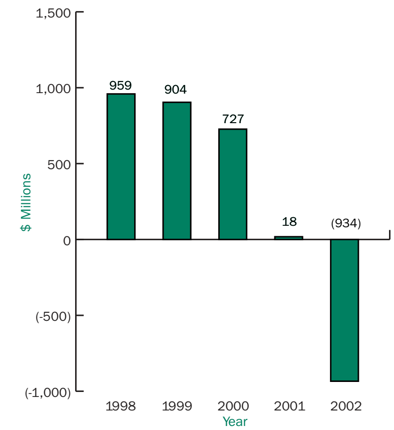
Schedule 2 employers pay for their own workers' benefit costs and related administrative and other expenses. A separate strategy is in place to ensure that Schedule 2 employers cover their liabilities. The WSIB remains committed to ensuring security of benefits for workers of Schedule 2 employers.

The WSIB's investment strategy is based on a long-term view. The investment portfolio is well diversified and takes into account the nature of the WSIB's financial obligations and strategic goals. The statement of investment policy and procedures is reviewed by the WSIB annually and strategy reviews are undertaken as required.

Excess (deficiency) of revenues over expenses

In 2002, rising benefit costs and the effects of weak investment market conditions on investment income led to expenses that exceeded revenues by $934 million. In 2001, revenues exceeded expenses by $18 million.

Excess (deficiency) of revenues over expenses



Revenues

The WSIB's revenues comes from premiums paid by Schedule 1 (collective liability) employers, reimbursements from Schedule 2 (self-insuring) employers and from investments. Total premium revenue increased by $173 million to $2,899 million in 2002 compared to 2001.

Components of premium revenue for the year ended December 31 are:

($ Millions)	2002	2001	Increase/(decrease)	
Schedule 1				
Premiums for the year	$ 1,761	$1,570	$ 191	12.2%
Experience rating net refunds	(51)	(4)	(47)	(1,175)
Interest, penalties less bad debts	31	21	10	47.6
	1,741	**1,587**	**154**	**9.7**
Schedule 2 (self-insurers)	256	279	(23)	(8.2)
Total current premiums	**1,997**	**1,866**	**131**	**7.0**
Premiums component for unfunded liability	902	860	42	4.9
Total premium revenue	**$ 2,899**	**$2,726**	**$ 173**	**6.3%**

Schedule 1 (collective liability coverage)

Premiums from Schedule 1 employers are based on annual premium rates, which reflect anticipated costs for the year. Premium rates are calculated to cover new claims costs, WSIB overhead expenses and a component to eliminate the unfunded liability.

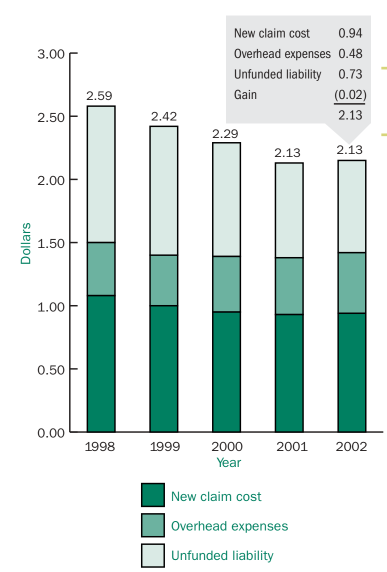
Beginning in 2002, claims experience gains and losses were included as an additional component of premium rates. When claims experience is better than expected, a gain occurs and results in a reduction in future premium rates. Losses increase future premium rates. Gains and losses are calculated annually and spread over five years.

The gains and losses component allows the premium rate to be adjusted to reflect actual claims cost experience. Included in the 2002 average premium rates is a $0.02 gain for the 1999 accident year, indicating better actual accident experience than expected. This gain helped keep the 2002 average premium rate the same as the 2001 rate.

The costs of the system are funded through the application of premium rates to the payrolls of Schedule 1 employers. An employer can be assigned to one or more of the 156 specific industry sector rate groups, based on its business activity and relative risk. Assignment to rate groups ensures that employers are charged on an equitable basis.

Over the past several years, Ontario employers have seen a reduction in average premium rates. The overall average premium rate for 2002 remained unchanged from 2001 at $2.13 for every $100 of insurable earnings. Although the average premium rate remains constant, rates for individual rate groups may have changed from 2001. About one-third of the rate groups experienced a rate decrease in 2002.

Average premium rate components



Total insured payroll increased by $6,525 million from $113,727 million in 2001 to $120,252 million in 2002. Two factors that influence the payroll base are the level of employment and earnings. During 2002, the industry sectors contributing the most to the $6,525-million growth in payroll were electrical utilities ($1,802 million), services ($1,714 million), construction ($825 million) and health care ($764 million).

Most of the growth in the electrical utilities sector payroll resulted from the transfer of electrical utility companies from Schedule 2 to Schedule 1. Effective January 1, 2002, electrical utilities who were formerly agencies of provincial and municipal governments were required to incorporate their operations under the *Ontario Business Corporations Act*. On January 1, 2002, these employers were transferred to Schedule 1. This transfer accounted for $1,778 million of the $1,802-million increase in the electrical utilities sector. Schedule 2 revenue decreased in 2002 as a result of this transfer.

Higher employment levels in the services, construction and health care industry sectors also contributed to the overall increase in insured payroll.

Schedule 2 (self-insurance)

Schedule 2 comprises those employers that are "self-insured" – that is, responsible for the full cost of benefits for their workers. The WSIB pays benefits directly to Schedule 2 injured workers, and is reimbursed by Schedule 2 employers for the cost of those benefits and the expense of administering them. These employers include:

- municipal corporations, municipal boards, public utilities commissions, public libraries and school boards
- railways and street railways, and associated machine shops
- power plants
- telephone and telegraph companies
- shipping, navigation and related companies
- bridge operations connecting Ontario with adjacent provinces or states
- provincial government and associated provincial boards and commissions
- airlines providing regularly scheduled international passenger service.

Revenue from Schedule 2 employers decreased by $23 million (8.2 per cent) compared to 2001, principally as a consequence of the transfer of electrical utility companies from Schedule 2 to Schedule 1.

Investments

The WSIB's investments provide a reserve to fund benefit payments to injured workers. Most of the WSIB's investments are held in the Insurance Fund, which relates to those reserves held for injured workers under collective liability coverage. The Insurance Fund is a broadly diversified portfolio of securities, including Canadian and foreign equities, high-grade fixed-income securities, commercial real estate, and cash and short-term instruments.

In 2002, investment income decreased by $519 million, from $765 million in 2001 to $246 million in 2002. The large decline in equity markets that began in early 2000 has significantly impacted investment performance, resulting in negative returns for 2001 and 2002.

The decline in investment income followed a five-year period of significant growth in investment income and in the fair value of the Insurance Fund. Favourable investment returns in 1998, 1999 and 2000 contributed to progress stronger than plan in reducing the unfunded liability in the years 1998 to 2001.

The statement of investment policy and procedures (SIPP) that governs the Insurance Fund is reviewed annually. It defines the policies and principles employed in the use of the Insurance Fund's assets, and sets an appropriate asset mix based on WSIB objectives. The asset mix of the Insurance Fund takes into account obligations, liabilities and funding goals for the claims of collectively insured employers, as well as the return and risk prospects of various investment asset alternatives. The SIPP also defines the governance structure and procedures used in the ongoing prudent management and oversight of the Insurance Fund's assets and investment managers.

Management of the Insurance Fund's investments has been delegated to a carefully selected team of external, independent investment management organizations operating within strictly defined asset sector mandates. Investment manager mandates have been established to provide diversified and complementary investment management mandates and styles that produce superior long-term returns at an overall reduced level of volatility ("investment risk"). The WSIB monitors these managers closely against their respective mandates, and the effectiveness of the team is assessed on an ongoing basis.

In April 2000, a 75 per cent equity weighting was adopted as policy, but implementation was deferred due to the perceived extreme overpricing of equity markets at that time and through most of the intervening period. During the second half of 2002, policy implementation began to move the Insurance Fund's asset mix closer to the 75 per cent equity policy position, and away from purely indexed mandates in favour of more active management within the Canadian and United States equity components.

2002 was dominated by uncertainty and deteriorating confidence in the economy, corporate management, markets and the political arena. With the additional spectre of war and fear of terrorism, stock markets suffered another bad year, with virtually all major developed markets registering double-digit negative returns.

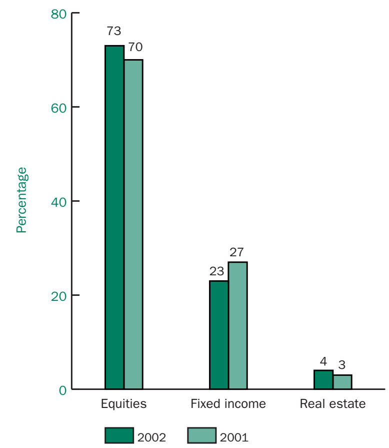
Economically, Canada's growth remained strong, with most recent data indicating real GDP growth in the range of 4.0 per cent, higher than that experienced in most of the industrial world. In the United States, however, growth was decidedly weaker. With a 12.4 per cent decline for the S&P/TSX Composite, Canada was one of the better-performing markets. In the United States, the S&P 500 declined by almost 23.0 per cent and the NASDAQ was down more than 32.0 per cent. Elsewhere in the world, the MSCI EAFE index was down 16.5 per cent. (All foregoing returns are quoted after conversion to recognize the value of the Canadian dollar relative to other currencies.)

Bonds, in contrast, turned in solid performances, particularly longer-dated issues. The Scotia Capital universe index registered an 8.7 per cent return for the year, while the long-term index returned more than 11.0 per cent. Real estate continued to be a productive portfolio alternative, with the Russell Canadian property index gaining more than 8.0 per cent.

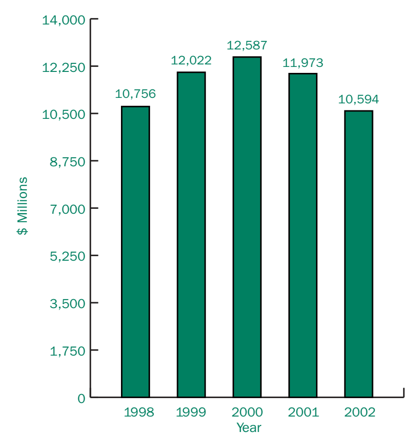
The Insurance Fund closed the year at a market value of $10,594 million, after transfers of $516 million from the Fund to support WSIB operations during the year. This closing value was down $1,379 million from the prior year-end.

The Insurance Fund's broad diversification across asset sectors, markets and investment styles helped reduce the impact on the Insurance Fund of the year's poor equity markets. The Insurance Fund recorded a negative return of 6.2 per cent for the calendar year, well outpacing its negative 11.5 per cent market-related benchmark. Longer-term returns for the past five years were also significantly impacted. The Insurance Fund recorded an annualized return of only 4.6 per cent. This did, however, outpace the 1.7 per cent five-year benchmark return. The benchmark is a composite of the returns of Canadian

Asset mix (at December 31)



Fair value of investments (at December 31st)



and foreign equity, bond and real estate market indices, weighted in the proportions in which they are represented in the Insurance Fund's asset mix policy.

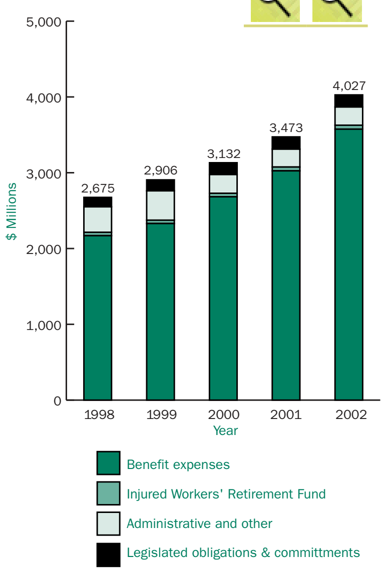
The better-than-benchmark returns represent the value added due to active portfolio management and adjustments to the policy mix. In 2002, the inclusion of "value" -style active equity managers and the underweighting of equities from the policy position through the first half of the year continued to be the main drivers for the Insurance Fund's outperformance compared to the benchmark.

Insurance Fund returns

One year	Three years	Five years	Ten years
-6.2%	-0.1%	4.6%	9.0%

Expenses

Total expenses



Expenses comprise benefit costs, administrative and other expenses, and legislated obligations and commitments. In 2002, total expenses increased by $554 million or 16.0 per cent – mainly due to higher benefit costs.

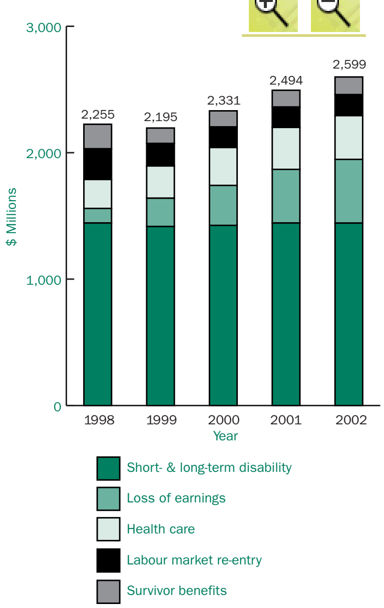
Benefits

Benefit costs can be influenced by the severity of injuries and illnesses, changes in legislation and health and safety and return-to-work practices in workplaces. Benefit costs can also be impacted by the WSIB strategic plan, which includes initiatives that improve service delivery and operational effectiveness, and by economic conditions.

In 2002, the WSIB revised its benefit cost category classifications to reflect the *Workplace Safety and Insurance Act, 1997*. Current legislation eliminates the need to distinguish between short-term and long-term loss-of-earnings benefits, which were separately reported in previous years. Prior to 1998, there was a time limit of 12 continuous months on short-term benefits, after which time qualifying injured workers were provided future economic loss (FEL) benefits, which were classified as long-term benefits.

As a result, in 2002, a single benefit category, "loss of earnings," was introduced, and the short-term and long-term benefit categories have been combined into the single category of "short- and long-term disability." This revised classification will provide more meaningful comparisons for benefit costs over time.

Total benefit costs paid



The total cost of benefits paid or provided directly to injured workers in 2002 was $2,599 million. This total cost reflects an increase of $105 million, or 4.2 per cent, over benefit payments in 2001. This cost increase was spread across the five benefit categories – health care, loss of earnings, survivor benefits, labour market re-entry, and short- and long-term disability. The largest increases were in the loss-of-earnings category ($80 million) and in the health-care benefits category ($15 million).

Some of the causes of the overall increase in benefit costs have broad economic impact, such as higher costs for health care. Other identifiable contributing factors are reductions in personal income tax rates and increases in workers' real salaries and wages. Reductions in income taxes and wage-rate growth directly increases the net average earnings (earnings less income tax, Canada Pension Plan contributions and employment insurance premiums) used to calculate benefit payments to injured workers.

Direct health-care costs paid in 2002 increased by 4.5 per cent ($15 million) compared to 2001. The WSIB covers several types of health-care expenses, including reimbursements to the Ministry of Health and Long-Term Care for physicians' services, payments for drugs and health-care professionals such as physiotherapists and chiropractors, and for health facilities. Personal care allowances and independent living allowances are also classified as health-care benefits. This increase is only a small component of the much greater lifetime health-care liability costs discussed below.

Throughout Canada, there has been a significant increase in health-care costs in recent years. The federal government of Canada formed a Commission on the Future of Health Care in Canada to address national concerns. In November 2002, the Romanow report on the Future of Health Care in Canada was released, and actions taken stemming from that report will impact WSIB health-care practices in the future.

Here in Ontario, the average cost to Ontario's workplace safety and insurance system of a Schedule 1 lost-time injury is projected to increase from $12,223 in 2002 to $14,333 in 2003. More than 90 per cent of that increase is directly related to increases in current and projected health-care costs.

The great majority of the WSIB's health-care costs relate to hospitals, physicians and drugs. Health-care increases occurred in hospitals and drugs. Physician costs also rose but not at the same rate.

Benefit liabilities

The WSIB's benefit liabilities are actuarially determined provisions for all future benefit costs relating to claims incurred prior to December 31, 2002. At December 31, 2002, the benefits liability was $16,965 million, an $835-million increase from the December 31, 2001 value of $16,130 million.

- $143 million of the increase in the benefits liability is due to the transfer from Schedule 2 to Schedule 1 of several electrical utility firms and their associated benefits liabilities relating to prior years, which took effect January 1, 2002.
- $545 million of the increase in the benefits liability for health care is primarily due to a change in actuarial assumptions relating to the escalation factors from 4.0 per cent to 6.5 per cent, applied to projected lifetime health-care claim costs.

Other increases related to normal program growth include the following:

- $234 million for the net growth in the claim inventory and loss-of-earnings benefits,
- $81 million for survivor pensions,
- $65 million for increases in payments for return-to-work and labour market re-entry services,
- $51 million for future economic loss claims reaching their final review date and migrating from partially to fully indexed benefits,
- $33-million increase in the provision for future claims administration expenses (excluding electrical utilities).

Decreases relating to the run off of older claims include:

- $112 million for worker pensions (accident years prior to 1990),
- $82 million for partially indexed future economic loss claims and their related supplements (accident years 1990 to 1997),
- $53 million relating to supplemental payments associated with worker pensions,
- $51 million for temporary compensation and rehabilitation benefits (accident years prior to 1998),
- $19 million for miscellaneous changes.

Change in the benefits liability for the year ended December 31

($ Millions)	2002	2001	Increase/(Decrease)	
Benefit costs	$ 3,258	$2,751	$ 507	18.4%
Provision for future claim administration costs	317	274	43	15.7
Total benefit costs	**3,575**	**3,025**	**550**	**18.2**
Transfer of electrical utilities from Schedule 2	143	_	143	_
Less: Benefit costs paid	2,883	2,755	128	4.6
Net increase/(decrease) in benefit liabilities	**835**	**270**	**565**	**209.3**
Benefit liabilities, January 1	16,130	15,860	270	1.7
Benefit liabilities, December 31	**$16,965**	**$16,130**	**$ 835**	**5.2%**

Sensitivity of actuarial assumptions

The benefit liabilities is based in part on actuarial assumptions. Changes in these assumptions can cause significant changes in the benefit liabilities. This sensitivity is illustrated as follows.

The actuarial assumption most susceptible to change is the assumed investment return. The present value of future benefit payments was calculated using an assumed investment rate of return, net of indexation, of 4.0 per cent for fully indexed benefits and 6.5 per cent for partially indexed benefits. The approximate impact of a 0.5 per cent decrease in the assumed investment return would have been a $625 million increase in the benefit liabilities.

Calculation of the benefit liabilities was based on the WSIB's mortality experience in the 1991 - 1995 period for injured workers and on the 1990 - 1992 Ontario Life Tables prepared by Statistics Canada, adjusted for mortality improvements. A flat reduction of 5.0 per cent in these mortality rates would have increased the benefits liabilities by approximately $125 million.

A 10.0 per cent increase in accident frequency, resulting in a 10.0 per cent increase in the number of lost-time injuries in the current year, would have increased benefit liabilities by approximately $100 million.

Health-care benefit liabilities are calculated assuming a future rate of escalation of health-care costs of 6.5 per cent per year (previously 4.0 per cent). A 0.5 per cent increase in the escalation factors used for future health-care costs would have increased benefits liabilities by approximately $85 million.

Administrative and other expenses

Excluding new systems development and integration expenses, administrative and other expenses in 2002 were $480 million, an increase of $30 million, or 6.7 per cent, compared to 2001.

Major year-over-year changes include the following items:

- WSIB benefit program increases of $14 million due to higher costs for the employees' pension plans and other benefit plans,
- during 2002, the investment value of the employees' pension plan was directly impacted by the negative performance of the global equity markets. As a result, the funding surplus was reduced; the fund, however, still remains in an actuarial surplus position. During 2002, the WSIB reviewed the key actuarial assumptions underlying the actuarial valuation of the plan. Changes in assumptions included a reduction in the expected long-term rate of return on plan assets from 7.5 per cent to 7.0 per cent. Also, the rate of compensation escalation was reduced from 5.5 per cent to 4.0 per cent, increasing the real rate of return.

• employee salaries and benefits increased $11 million, or 4.3 per cent, due to an increase in the number of staff providing services to injured workers and employers, and in general salary increments,

In addition to the ongoing costs of administering the *Workplace Safety and Insurance Act, 1997*, administrative and other expenses also include the costs of transforming WSIB business processes and computer systems. New systems development and integration expenses for the year amounted to $44 million, $3 million (6.4 per cent) less than for 2001.

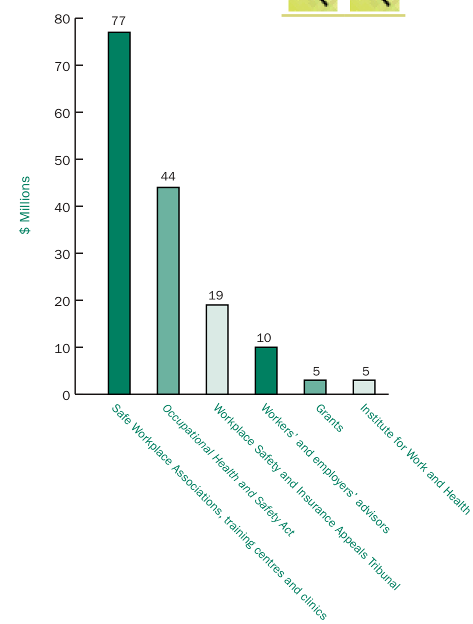
In 2002, a new health care expense billing system was successfully implemented. As well, new general ledger, accounts payable, purchasing and expense systems were implemented on January 6, 2003.

Legislated obligations and commitments

In 2002, the WSIB's legislated obligations and commitments cost $160 million, a decrease of $2 million, or 1.2 per cent, compared to 2001. Together with its partners in Ontario's workplace safety and insurance system, the WSIB continued to invest in the alignment of the prevention system, and to demonstrate its commitment to workplace health and safety.

Funding for the Health and Safety Associations, training centres and clinics was increased by $7 million. These organizations provide injury and illness prevention services to Ontario's workplaces. Decreased funding for other legislated obligations offset this increase.

Breakdown of legislated obligations and commitments



Outlook

After consultation and discussion with employers and other stakeholders, the WSIB decided that the 2003 average premium rate should increase by 3.0 per cent to $2.19 for every $100 of insurable earnings. This average premium rate increase is the first since 1994. As of 2002, overall premium rates have decreased by $0.88 or 29 per cent, from the 1994 average premium rate of $3.01.

Despite continuing improvements in the lost-time injury rate, premium rates for 2003 are higher because of two external factors, rising health-care costs and investment market conditions. These are the same pressures that are causing other insurance companies and other workers' compensation systems in Canada to increase premium rates.

As the economy in Ontario continues to grow, the insured payroll in 2003 is expected to increase to $126,000 million (4.8 per cent higher than 2002) – driven by an increase in employment, average wages and average weekly hours worked.

Despite the decline consumers have endured in their equity investments, retirement savings, and consumer spending – while far from robust – have not declined sharply across the board. Due to the sharp declines of the past two years, equity markets are generally now fairly priced and, in some markets, represent attractive levels by historical standards. The effects of the recent Middle-East conflict are causing concerns among equity investors, and the consensus is decidedly cautious – anticipating, at best, mid to high single-digit returns for 2003.

With respect to fixed-income investments, concern is being expressed that interest rates are likely to increase. Indications are that only very modest returns are in store for the bond sector in 2003.

The increase in CPI experienced in 2002 will affect the indexing factor used to calculate benefits for 2003, driving the costs of survivor and loss-of-earnings benefits up. Higher health-care costs will also increase benefit costs. Initiatives are under way to assist the recovery and return to work of injured workers and to seek more process efficiencies.

Customer service and promotion of healthier and safer workplaces, recovery and return to work, performance excellence and financial integrity will continue to be emphasized in 2003 through a number of initiatives. New initiatives continue to be launched in 2003, including minimizing delays in the recovery and return to work of injured workers and expanding the organization's capacity to process research material for front-line teams.

A Fair Practice Commission is to be set up for 2003 to address ongoing issues of service delivery raised by workers, employers and external service providers. Other initiatives include improving the network of health clinics and the development of care pathways for occupational diseases.

The WSIB will continue to build a solid foundation for Ontario's workplace health and safety system in 2003 and beyond. The financial security of the system is sufficient, with reserves to meet future injury and disease costs. Initiatives are continuing to improve the cost-effectiveness of the WSIB's products, services and programs.

This foundation will enable ongoing improvements to services provided for workers and employers and will support workplace health and safety initiatives, moving closer to the vision: **the elimination of all workplace injuries and illnesses.**

Balance sheet

AS AT DECEMBER 31

($ Millions)	2002	2001
ASSETS		
Cash and cash equivalents	$ 122	$ 7
Receivables	526	286
Investments (note 3)	10,361	10,674
Injured Workers' Retirement Fund (note 4)	434	412
Property, plant, equipment and other assets (note 5)	181	197
	$ 11,624	$ 11,576
LIABILITIES		
Payables and accruals	$ 389	$ 313
Mortgage payable (note 6)	72	73
Injured Workers' Retirement Fund (note 4)	434	412
Employee benefit plans (note 7)	355	305
Benefit liabilities (note 8)	16,965	16,130
	18,215	17,233
UNFUNDED LIABILITY (note 9)	(6,591)	(5,657)
	$ 11,624	$ 11,576

On behalf of the Board of Directors:

Ron Hikel, Acting Chair
Director

Eileen Mercier, Vice-Chair
Director

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

Statement of operations and unfunded liability

FOR THE YEAR ENDED DECEMBER 31

($ Millions)	2002	2001
CURRENT OPERATIONS		
Revenues		
Premiums for the year	$ 1,997	$ 1,866
Investments (note 3)	246	765
	2,243	2,631
Expenses		
Benefit costs (note 8)	3,575	3,025
Injured Workers' Retirement Fund	52	50
Administrative and other expenses (note 10)	240	236
Legislated obligations and commitments (note 11)	160	162
	4,027	3,473
Excess (deficiency) of revenues over expenses from current operations	(1,784)	(842)
Premiums for unfunded liability	902	860
Transfer of Electrical Utilities from Schedule 2 (note 12)	(52)	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES APPLIED TO THE UNFUNDED LIABILITY	(934)	18
Unfunded liability, beginning of year	5,657	5,675
Unfunded liability, end of year (note 9)	$ 6,591	$ 5,657

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

Statement of cash flows

	FOR THE YEAR ENDED DECEMBER 31	
($ Millions)	**2002**	**2001**
OPERATING CASH FLOWS		
Cash received from:		
Premiums for the year	$ 1,965	$ 1,856
Cash paid to:		
Claimants, survivors and care providers	(2,614)	(2,508)
Injured Workers' Retirement Fund	(21)	(24)
Employees and suppliers for administrative goods and services	(484)	(449)
Legislated obligations and commitments	(162)	(157)
	(3,281)	(3,138)
Net cash required by current operations	(1,316)	(1,282)
INVESTING CASH FLOWS		
Investment income	$ 337	$ 399
Sale of investments	9,015	7,670
Purchase of investments	(8,809)	(7,688)
Net cash provided by investing activities	543	381
Cash received from premiums for unfunded liability	888	856
Increase (decrease) in cash and cash equivalents	115	(45)
Cash and cash equivalents, beginning of year	7	52
Cash and cash equivalents, end of year	$ 122	$ 7

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

Notes to the financial statements

DECEMBER 31, 2002

1. Nature of operations

The Workplace Safety and Insurance Board (WSIB) is a statutory corporation created by an *Act* of the Ontario Legislature in 1914. The WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997*. The WSIB promotes the prevention of injuries and illnesses in Ontario workplaces and provides insurance benefits to workers who sustain injuries in the course of employment or contract occupational diseases. The WSIB also provides insurance benefits to survivors of workers who die due to workplace injuries or illnesses.

Employers covered by the *Workplace Safety and Insurance Act, 1997*, are divided into two groups, referred to as “Schedule 1” and “Schedule 2.” Schedule 1 employers are insured under a “collective liability” system and are required to contribute to the WSIB Insurance Fund. Schedule 2 employers are “self-insured” and are individually liable for the full costs of their workers’ claims. The WSIB pays insurance benefits for Schedule 2 workers and is reimbursed by their employers for the costs of the claims, including administrative costs, and for the cost of the WSIB’s prevention activities.

The WSIB also administers the federal *Government Employees Compensation Act*. Under agreement with Human Resources Development Canada, the federal government is treated like a Schedule 2 employer.

Revenue is raised through premiums, which are collected from all Schedule 1 employers covered under the *Workplace Safety and Insurance Act, 1997*. Revenue is also earned from a diversified investment portfolio held to meet future obligations on existing claims. Schedule 2 reimbursements also contribute to WSIB revenue. The WSIB receives no government funding or assistance.

2. Significant accounting policies

The consolidated financial statements include the Schedule 1 and Schedule 2 accounts of the WSIB and its wholly owned subsidiaries. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue 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 initial maturities of up to three months.

Investments

Investments comprise short-term securities, bonds, equities and real estate.

Carrying value

Short-term securities consist of money market instruments with maturities between three and 12 months and are carried at cost. Gains and losses from sales are included in income for the year in which they occur.

Bonds and coupons are carried at amortized cost. Realized gains and losses on the sale of bonds and coupons are deferred and amortized over either 20 years or the period to maturity of the security, whichever is the lesser.

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.

Fair value

Investments 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.

Cash and cash equivalents denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date.

The carrying value of short-term securities, treasury bills and term deposits maturing within a year, plus accrued interest income, approximates the fair value of these instruments.

The fair value of bonds and equities denominated in foreign currencies is translated to Canadian dollars at the exchange rate in effect at the balance sheet date.

The fair value of real estate is based on appraised values conducted on a cyclical basis.

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

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date, with the exception of derivative contracts, which are carried at the exchange rate negotiated. Revenue and expenses are translated at exchange rates in effect on the transaction date. Realized and unrealized exchange gains and losses are included in income.

Derivative financial instruments

The WSIB is party to forward foreign-exchange contracts. On inception, the carrying value of the receivables and payables resulting from these contracts is included in the carrying value of investments. At maturity, the realized gains and losses on forward foreign-exchange contracts are deferred and amortized over a four-year period.

Fair value of other financial assets and liabilities

The carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments.

Injured Workers' Retirement Fund

The Injured Workers' Retirement Fund is invested in short-term securities, bonds, equities and a pooled fund. These investments are carried at fair value as described above. Changes in fair value are included in investment income of the Injured Workers' Retirement Fund in the year in which they occur.

Property, plant, equipment and other assets

Property, plant, equipment and other assets are recorded at cost. The cost of buildings includes development, financing and other costs capitalized prior to the day they become fully operational. At this time, depreciation commences. Capital assets are depreciated using the straight-line method, at rates calculated to expense the cost of assets over their estimated useful lives. In the case of buildings, office equipment and computer equipment, useful lives are estimated at 20 years, five years and three years respectively.

Premiums

In advance of the fiscal year, the WSIB determines the total amount of premiums to be paid by Schedule 1 employers and notifies them of their premium rates for the following year. Premium revenue is determined by applying premium rates to Schedule 1 employers' payrolls.

Premium rates include a component that is applied to reduce the unfunded liability.

Schedule 2 employers are individually liable to pay all insurance benefits with respect to their workers' claims. Reimbursements for claims paid and the cost of administering the claims are included in premium revenue.

Benefit liabilities

Benefit liabilities are determined annually through an actuarial valuation. They represent a provision for future benefit payments and the future cost of administering claims incurred on or before December 31. The provision has been determined by estimating future benefit payments in accordance with the adjudication practices in effect at December 31 and relevant legislation.

The benefit liabilities do not include any provision for payment of Schedule 2 claims. The costs of these claims are not considered WSIB liabilities because they are a liability of Schedule 2 employers.

Benefit liabilities do not include any provision for future claims relating to occupational diseases, or for injuries and illnesses that are not currently considered to be work-related.

3. Investments and investment revenue

The carrying value of investments comprises:

($ Millions)	2002	2001
Investments at cost	$ 10,376	$ 10,774
Adjustments towards fair value	265	575
Unamortized net gains realized on sale of investments	(328)	(731)
Accrued investment income	48	56
	$ 10,361	$ 10,674

Value of investments by category are as follows:

($ Millions)	2002		2001	
	Carrying value	Fair value	Carrying value	Fair value
Fixed-income securities				
Bonds	$ 1,854	$ 2,374	$ 2,659	$ 3,147
	1,854	2,374	2,659	3,147
Equities				
Domestic	2,060	2,140	3,041	3,573
Foreign -U.S.	2,657	2,597	783	930
-Global	3,386	3,061	3,745	3,855
	8,103	7,798	7,569	8,358
Real estate	356	374	390	412
Accrued investment income	48	48	56	56
	$10,361	$10,594	$ 10,674	$11,973

Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates as compared to the Canadian dollar. The WSIB uses foreign-exchange contracts to hedge currency risk. Foreign-exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception. The fair value of these financial instruments would change in response to changes in the underlying variables affecting the contracts, such as changes in the foreign-exchange rates of the currencies involved in the contracts.

The notional amounts in foreign-exchange contracts are the contractual amounts on which payments are made. These notional amounts have been converted into Canadian dollars at the contractual exchange rates in effect at the inception of the contracts. 2002 outstanding contracts mature in the first three months of 2003.

At December 31, 2002, the notional value of outstanding foreign currency contracts was $243 million (2001: $325 million). Outstanding contracts in a favourable position had a fair value of $8 million (2001: nil) and those in an unfavourable position had a fair value of negative $7 million (2001: $5 million).

The fair value of the investment portfolio includes $5,631 million (2001: $4,775 million) of securities denominated in foreign currency.

Bonds by term to maturity as at December 31:

($ Millions)	2002					2001
			Term to maturity			
	Up to 1 year	1–5 years	5–10 years	Over 10 years	Total	Total
Government bonds						
Carrying value	$ –	$ 717	$ 523	$ 434	$ 1,674	$ 2,238
Fair value	$ –	$ 743	$ 552	$ 463	$ 1,758	$ 2,315
Yield (%)*	–	3.5	4.6	5.5	4.4	4.8
Corporate bonds						
Carrying value	$ 4	$ 231	$ 182	$ 172	$ 589	$ 810
Fair value	$ 4	$ 241	$ 193	$ 178	$ 616	$ 832
Yield (%)*	4.4	4.1	5.4	6.3	5.2	5.4
Less: Unamortized gain	–	–	–	–	$ 409	$ 389
Total						
Carrying value	$ 4	$ 948	$ 705	$ 606	$ 1,854	$ 2,659
Fair value	$ 4	$ 984	$ 745	$ 641	$ 2,374	$ 3,147
Yield (%)*	4.4	3.7	4.8	5.7	4.6	5.0

*The average yield reflects the yield to maturity which is the discount rate that makes the present value of future cash flows for each bond equal to its fair value at December 31

Securities lending

WSIB earns additional income by participating in a securities-lending program. Securities it owns are loaned to others for a fee and are secured by high-quality collateral. The fair value of the collateral always exceeds the fair value of the securities loaned and the collateral is marked to market daily. The program is managed by a financial institution in Canada.

At December 31, 2002, the fair value of securities on loan was $992 million (2001: $1,637 million).

Deferred net realized gains and unrealized net losses were amortized to investment revenue in the year as follows:

($ Millions)	2002	2001
Net realized gains (losses)	$ 225	$ 457
Net unrealized gains (losses)	(310)	(78)
	$ (85)	$ 379

Revenue by category of investment is as follows:

($ Millions)	2002	2001
Short-term securities	$ 4	$ 8
Bonds	203	250
Equities and real estate	62	527
	269	785
Investment expenses	(23)	(20)
Investment revenue	$ 246	$ 765

4. Injured Workers' Retirement Fund

For injuries and illnesses that occurred prior to January 1, 1998, the WSIB sets aside funds equal to 10 per cent of every payment made to injured workers.

Effective January 1, 1998, for claims incurred after December 31, 1997, for workers who have received loss-of-earnings benefits for 12 continuous months, the WSIB sets aside 5 per cent of their loss-of-earnings benefits for their retirement fund. Injured workers may choose to contribute a further 5 per cent from their loss-of-earnings benefits. These funds are segregated from the WSIB's Insurance Fund and are invested to provide retirement income benefits for injured workers.

The carrying value of the Fund at December 31 is as follows:

($ Millions)	2002	2001
Cash and cash equivalents	$ 29	$ 2
Bonds	95	-
Equities	113	-
Investment in pooled fund	197	410
	$ 434	$ 412

The underlying securities in the pooled fund include fixed-income securities valued at $67 million (2001: $155 million), equities valued at $123 million (2001: $242 million) and money-market instruments valued at $7 million (2001: $13 million).

The change in net assets is as follows:

($ Millions)	2002	2001
Funds set aside under the *Act*	$ 52	$ 50
Investment loss	(15)	(12)
Benefit costs paid	(15)	(14)
Increase in net assets	22	24
Net assets, beginning of year	412	388
Net assets, end of year	$ 434	$ 412

5. Property, plant, equipment and other assets

($ Millions)	2002		2001
	Cost	Net carrying value	Net carrying value
Buildings and leasehold improvements	$ 218	$ 137	$ 150
Office equipment	109	7	11
Computer equipment	107	24	24
	434	168	185
Other assets	13	13	12
	$ 447	$ 181	$ 197

Depreciation expense in 2002 was $43 million (2001: $35 million).

6. Mortgage payable

The WSIB, through its wholly owned subsidiary 799549 Ontario Inc., is a 75 per cent participant in a co-ownership agreement for its head office building at 200 Front Street West, Toronto. To fund part of 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.

The fair value of the mortgage payable as of December 31, 2002 was $80 million (2001: $90 million), with a book value of $72 million (2001: $73 million). The $7-million mortgage interest expense for the year was charged against occupancy costs.

7. Employee benefit plans

The WSIB has several benefit plans that provide pension and other post-employment benefits. The cost of employee benefit plans is recognized in the reporting period in which employees have been provided with the service.

Pension and other benefit plans

The WSIB has two pension plans for its employees and employees of Ontario's Health and Safety Associations: the WSIB Employees' Pension Plan and the WSIB Employees' Supplementary Pension Plan.

The WSIB Employees' Pension Plan is a defined-benefit pension plan that provides for partially indexed pensions based on years of service and the best five consecutive years average earnings in the last ten years of employment. The WSIB Employees' Supplementary Pension Plan ensures that employees of the WSIB and Ontario's Health and Safety Associations whose earnings exceed the threshold earnings for the maximum pension benefit permitted under the federal *Income Tax Act* will receive pension benefits based on their total earnings.

The investment activities and the administrative and accounting functions of the pension plans are administered by the WSIB. The accrued pension obligations of the plans reflect management's estimates of salary escalation, investment rate of return, mortality of members, terminations and ages at which members will retire.

The WSIB also provides other benefits to eligible current and retired employees. These other benefits include medical, dental and life insurance, accrued vacation, short-term salary protection to cover periods of illness and other absences, as well as the costs of insurance benefits provided to employees who sustain injuries in the course of employment.

Information about the WSIB's defined-benefit pension plans and other benefit plans, in aggregate, is as follows:

($ Millions)	Employees' Pension Plan		Employees' Supplementary Pension Plan		Other Benefit Plans		Total Plans	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
Accrued benefit obligation								
Beginning of year	$ 1,057.0	$ 977.1	$ 10.3	$ 8.9	$ 283.2	$ 265.7	$ 1,350.5	$1,251.7
Current service cost	54.6	53.0	0.5	0.6	3.5	3.3	58.6	56.9
Interest cost	74.7	69.1	0.8	0.6	13.4	13.0	88.9	82.7
Benefits paid	(35.4)	(34.7)	(0.1)	0.0	(4.8)	(4.3)	(40.3)	(39.0)
Employee past service contributions	1.8	2.4	0.0	0.0	0.0	0.0	1.8	2.4
Employee current service contributions	0.0	0.0	0.3	0.2	0.0	0.0	0.3	0.2
Past service benefit cost	11.7	2.3	0.0	0.0	0.0	8.1	11.7	10.4
Actuarial (gain) loss	(121.8)	(12.2)	(0.9)	0.0	21.9	(10.7)	(100.8)	(22.9)
Actuarial adjustment	0.0	0.0	0.0	0.0	0.5	8.1	0.5	8.1
End of year	1,042.6	1,057.0	10.9	10.3	317.7	283.2	1,371.2	1,350.5
Plan assets								
Fair value at beginning of year	1,147.1	1,186.8	1.2	0.8	0.0	0.0	1,148.3	1,187.6
Actual return on plan assets	(56.2)	(7.4)	0.0	0.0	0.0	0.0	(56.2)	(7.4)
Employer contributions	0.0	0.0	0.2	0.2	4.8	4.3	5.0	4.5
Employee current service contributions	0.0	0.0	0.3	0.2	0.0	0.0	0.3	0.2
Employee past service contributions	1.8	2.4	0.0	0.0	0.0	0.0	1.8	2.4
Benefits paid	(35.4)	(34.7)	(0.1)	0.0	(4.8)	(4.3)	(40.3)	(39.0)
Fair value at end of year	1,057.3	1,147.1	1.6	1.2	0.0	0.0	1,058.9	1,148.3
Funded status								
Funded status,-plan surplus (deficit)	14.7	90.1	(9.3)	(9.1)	(317.7)	(283.2)	(312.3)	(202.2)
Unamortized net actuarial (gain) loss	63.7	43.8	(1.8)	(1.0)	(23.6)	(43.9)	38.3	(1.1)
Unamortized past service costs	13.8	2.3	0.0	0.0	29.0	31.3	42.8	33.6
Unamortized transitional obligation	(129.7)	(141.4)	5.5	6.0	0.0	0.0	(124.2)	(135.4)
Accrued benefit asset (liability)	(37.5)	(5.2)	(5.6)	(4.1)	(312.3)	(295.8)	(355.4)	(305.1)
Accrued benefit obligation, end of year	1,042.6	1,057.0	10.9	10.3	317.7	283.2	1,371.2	1,350.5
Fair value of plan assets, end of year	1,057.3	1,147.1	1.6	1.2	0.0	0.0	1,058.9	1,148.3
Funded status, plan surplus (deficit)	14.7	90.1	(9.3)	(9.1)	(317.7)	(283.2)	(312.3)	(202.2)
Net benefit expense								
Current service cost	54.6	53.0	0.5	0.6	3.5	3.4	58.6	57.0
Interest cost	74.7	69.1	0.8	0.6	13.4	13.1	88.9	82.8
Expected return on plan assets	(85.5)	(82.5)	0.0	0.0	0.0	0.0	(85.5)	(82.5)
Amortization of past service costs	0.2	0.0	0.0	0.0	2.4	1.8	2.6	1.8
Amortization of transitional obligation	(11.8)	(11.8)	0.5	0.4	0.0	0.0	(11.3)	(11.4)
Amortization of net loss (gain)	0.0	0.0	0.0	0.0	2.1	(1.0)	2.1	(1.0)
Net benefit plan expense	$ 32.2	$ 27.8	$ 1.8	$ 1.6	$ 21.4	$ 17.3	$ 55.4	$ 46.7

The significant actuarial assumptions adopted as at December 31 to value the Employees' Pension Plan, the Employees' Supplementary Pension Plan and other benefit plans are as follows:

(Per cent)	Employees' Pension Plan		Employees' Supplementary Pension Plan		Other Benefit Plans	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
Discount rate	6.8%	7.0%	6.8%	7.0%	6.8%	7.0%
Expected long-term rate of return on plan assets	7.0	7.5	3.5*	3.8*	-	–
Rate of compensation escalation	4.0	5.5	5.5	5.5	5.5	5.5
Medical cost escalation	–	–	–	–	7.0	7.0
Dental cost escalation	–	–	–	–	4.0	4.0
Average remaining service period (yrs)	14	14	14	14	14	14

* Adjusted to reflect the impact of 50% refundable tax, under the Income Tax Act (Canada)

As at year-end 2002, the WSIB's accrued liability for employee future benefits, other than pensions, was $312 million (2001: $296 million)

8. Benefit liabilities and benefit costs

Benefit liabilities represent an actuarially determined provision for future benefit payments relating to incurred claims and the expense of administering those benefits, and are discounted to present value at the assumed net investment returns shown below. Estimates of future benefit payments apply to both reported and unreported claims resulting from injuries and illnesses that occurred on or before December 31, 2002. They are based on the level and nature of entitlement, and adjudication practices in effect at December 31, 2002. The benefit liabilities were 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 depends on economic and actuarial assumptions that are based on past experience, modified for current trends. These assumptions may change over time to reflect underlying conditions, and 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 benefit liabilities:

(Per cent)	2002	2001
Inflation rate	3.0%	3.0%
Investment rate of return	7.0	7.0
Rate of indexation of benefits		
-Fully indexed	3.0	3.0
-Partially indexed	0.5	0.5
Investment return, net of indexation		
-Fully indexed	4.0	4.0
-Partially indexed	6.5	6.5
Wage escalation rate	4.0	4.0
Health-care costs escalation rate	6.5	4.0

Mortality estimates are based on injured-worker mortality experience from 1991 to 1995. Mortality estimates for survivors of deceased workers are based on the 1990 to 1992 Ontario Life Tables prepared by Statistics Canada, adjusted for mortality improvements. Provisions have 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 to be adequate. Long-term economic and actuarial assumptions and methods are reviewed annually at December 31, when an independent actuarial valuation is performed.

The actuarial present value of future benefit payments for reported and unreported work-related injuries and illnesses are recorded as benefit costs. Any adjustments resulting from the continual review of entitlements and experience, or from changes in legislation, assumptions or methods, are also included as benefit costs.

The benefit liabilities include a provision of $808 million (2001: $768 million) for future costs of administering existing claims. Administrative and other expenses have been reduced by $284 million (2001: $261 million). This amount was released from the provision for benefit liabilities relating to claim administration expense in the current year.

In 2002, the WSIB revised its benefit category classifications. The new classifications are based on the *Workplace Safety and Insurance Act, 1997.* Under current legislation there is no distinction between short-term and long-term loss-of-earnings benefits. Prior to 1998, there was a time limit of 12 months on short-term benefits, after which time workers were provided with future economic loss (FEL) benefits, which were classified as long-term benefits.

Current legislation removes the distinction between short-term and long-term benefits that previously existed. In 2002, a new benefit category, "loss-of-earnings," is introduced to reflect current legislation. The short-term and long-term benefit categories reported separately prior to 2002 are now combined into one category: "short- and long-term disability."

Benefit liabilities provision and benefit costs paid in 2002 are as follows:

($ Millions)	2002								2001
		Labour Market Re-entry							
	Loss of earnings	Income support	External providers	Short and long-term disability	Health care	Survivor benefits	Claim administration costs	Total	Total
Benefit liabilities									
Beginning of year	$ 1,358	$ 189	$ 207	$10,625	$ 1,499	$ 1,484	$ 768	$16,130	$15,860
Transfer of Electrical Utilities from Schedule 2 (note 12)	4	1	1	100	8	22	7	143	–
Benefit costs	742	39	158	1,196	892	231	317	3,575	3,025
Benefit costs paid									
During the year									
Schedule 1	(473)	(68)	(89)	(1,308)	(315)	(129)	(284)	(2,666)	(2,526)
Schedule 2	(31)	(5)	(4)	(134)	(32)	(11)	-	(217)	(229)
	(504)	(73)	(93)	(1,442)	(347)	(140)	(284)	(2,883)	(2,755)
Change in benefit liabilities	242	(33)	66	(146)	553	113	40	835	270
Benefit liabilities, End of year	$ 1,600	$ 156	$ 273	$10,479	$ 2,052	$ 1,597	$ 808	$16,965	$16,130

9. Actuarial reconciliation of the change in the unfunded liability

The actuarial reconciliation of the change in the unfunded liability is as follows:

($ Millions)	2002	2001
Unfunded liability, beginning of year	$ 5,657	$ 5,675
Add (deduct):		
Transfer of Electrical Utilities from Schedule 2	52	0
Investment income not earned due to shortfall in invested assets	398	404
Premiums allocated to reduction of unfunded liability	(902)	(860)
Experience (gains)/losses resulting from:		
Indexation of benefits less than expected	10	(110)
Lower (higher) than expected investment returns	531	(8)
Prior and current years' claims experience	65	77
Changes in assumptions:		
Long-term loss of earnings	0	18
Health-care benefits	566	243
Long-term disability	52	100
External agency rehabilitation payments	67	36
Other changes	95	72
Change in personal income tax rates	0	10
Unfunded liability, end of year	$ 6,591	$ 5,657

10. Administrative and other expenses

Administrative and other expenses consist of the following:

($ Millions)	2002	2001
Salaries and employee benefits	$ 331	$ 305
Equipment depreciation and maintenance	53	45
Occupancy	40	42
Communication	15	12
Supplies and services	20	20
Travel and vehicle maintenance	7	8
New systems development and integration	44	47
Other	14	18
	524	497
Claim administration costs (note 8)	(284)	(261)
	$ 240	$ 236

11. Related-party transactions

Legislated obligations and commitments

Under the *Workplace Safety and Insurance Act, 1997,* and as directed by the Lieutenant Governor through Orders-in-Council, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act*. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal (WSIAT), the Offices of the Worker and Employer Advisor, and Ontario's mine rescue stations. These reimbursements and funding amounts are determined and approved by the Minister of Labour. The WSIB is also committed to providing funding for the Institute for Work and Health and Ontario's Health and Safety Associations, clinics and training centres.

The total amount of funding provided under these legislated obligations and commitments in 2002 was $160 million (2001: $162 million).

Investments

Included in investments are marketable fixed-income securities issued by the Ontario provincial government and related corporations valued at $222 million (2001: $262 million).

Other

In addition to legislated obligations and workplace health and safety 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. Such transactions are conducted on terms and conditions similar to those that apply to transactions with unrelated parties. Account balances resulting from these transactions are not significant.

12. Transfer of Electrical Utilities from Schedule 2

Electrical utilities, formerly agencies of provincial and municipal governments, were required to incorporate their operations under the *Ontario Business Corporations Act.* As a result, effective January 1, 2002, the WSIB transferred all electric utility employers previously covered under Schedule 2 to Schedule 1. The impact of this transfer in 2002 is an increase in premiums received of $91 million, an increase in benefit liabilities of $143 million and an increase in the unfunded liability of $52 million.

13. Commitments and contingencies

Operating leases

At December 31, 2002, the WSIB was committed under non-cancelable operating leases requiring future minimum payments of approximately $18 million per year over the next five years, and $32 million in aggregate 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 WSIB expenses or financial position.

Bank line of credit

The WSIB maintains an unsecured $150-million line of credit with a commercial bank. The credit line was not utilized in 2002.

14. Comparative figures

Certain of the comparative amounts have been reclassified to conform with the presentations adopted in the current year.

Responsibility | for financial reporting

The accompanying financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied, and include 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 Canadian 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 11, 2003

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, 2002 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 Canadian 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, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Toronto, Canada
March 11, 2003

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, 2002

We have determined the estimated present value as at December 31, 2002 of future payments for loss of earnings, labour market re-entry, short and long term disability, health care, survivor benefits, retirement income benefits and claims administration costs under Schedule 1 on account of accidents that occurred on or before that date to be $16,965 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.

In this valuation, we have included the estimated present value of future payments in respect of several electrical utility firms, which moved from Schedule 2 to Schedule 1 effective January 1, 2002.

As in the previous valuation, we have included the estimated present value of future payments for claims administration in the calculation of the total Schedule 1 liability, using an assumption of 5% of the estimated present value of benefits as at December 31, 2002.

The present value reported above includes the liability for benefits under Bill 162 which came into effect as of January 2, 1990. For the purpose of this valuation, we continue to use the same assumptions as were used in the previous valuation 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. The present value also takes into account the provisions of Bill 165, which came into effect as of January 1, 1995 and the provisions of Bill 99, which came into effect as of 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, 2003. 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 4% per annum with respect to fully indexed benefits and 6.5% 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 3% per annum, and the rate of indexation of benefits was therefore assumed to be 3% per annum for fully indexed benefits and 0.5% 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 4.5% of lost time accidents continue to receive benefits after two years. Following the two-year period, the renewal rate would decrease annually at an average rate of 10% until it reaches 60% six years after the date of accident.

Following the results of a study of escalation factors for health care expenses, the long-term rate of health care escalation assumed in the valuation was increased from 4% per annum to 6.5% per annum.

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 $16,965 million as at December 31, 2002 makes reasonable provision for future payments for loss of earnings, labour market re-entry, short and long term disability, health care, survivor benefits, retirement income benefits and claims administration costs under Schedule 1 on account of accidents that occurred on or before December 31, 2002.

We hereby confirm, with respect to this valuation, that:

1. the data on which the valuation is based is sufficient and reliable for the purpose of the valuation;
2. the assumptions, in aggregate, are appropriate for the purposes of the valuation;
3. the methods employed in the valuation are appropriate for the purposes of the valuation;
4. this report has been prepared, and our opinions given, in accordance with accepted actuarial practice.

David A. Short

Jill M. Wagman

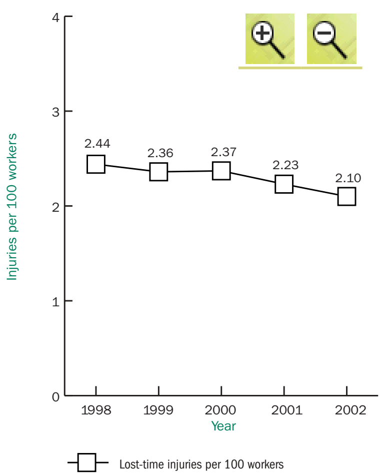
David A. Short, F.S.A., F.C.I.A.

Jill M. Wagman, F.S.A., F.C.I.A.

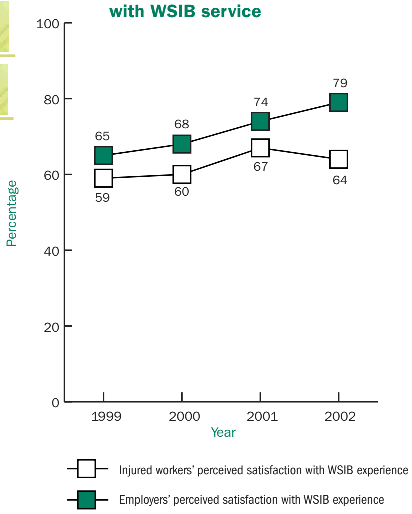
Actuaries with the firm of Eckler Partners Ltd.
March 11, 2003

3 Imperatives | the WSIB is focused on outcomes

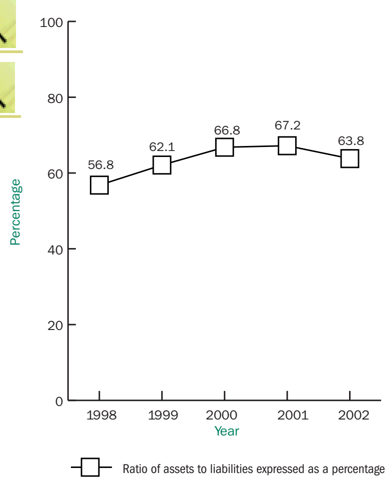
Measure: lost-time injury rate



Measure: perceived overall satisfaction with WSIB service



Measure: funding ratio



One: to make Ontario workplaces among the safest in the world

Outcomes

- With our partners, we will be the best provider of health and safety products and services.
- We will help to ensure continuous reduction of workplace injuries and illnesses.
- We will have the healthiest and safest workplaces.

Two: to provide quality service that meets the needs of workers and employers

Outcomes

- Injured and ill workers will recover as early as possible.
- Return to work will be safe, suitable, timely and sustainable.
- Our decisions will be correct, timely and well understood.
- We will treat all our customers and clients in an individualized, caring and respectful way.
- Our products and services will be appropriate, timely, easy to use and responsive to our customers' and clients' needs.
- Our policies will be fair, balanced and equitable.
- We will ensure full compliance with all obligations under WSIB legislation and policies.

Three: to ensure the financial security of the workplace safety and insurance system

Outcomes

- Our competitive, appropriate rates will fully fund the Schedule 1 insurance system.
- The Schedule 2 system will be securely funded.
- Investments will be managed effectively, maximizing return with an acceptable risk level.
- The Insurance Fund will have an adequate reserve for future costs.
- Our administration, products, services and programs will be cost-effective.

Public Sector

salary disclosure 2002

Name	Position Title	Earnings	Taxable Benefits	Total Earnings
Abrams,Brenda E.	Legal Counsel	$112,913	$229	$113,142
Archar,Ramach Andra	Medical Consultant	$147,437	$247	$147,684
Adamo,Valerie	VP Info Services And CIO	$181,362	$316	$181,678
Ah-Yoong, Georges	Project Director	$109,062	$212	$109,274
Allingham,Richard	Director, Research and Eval	$116,925	$237	$117,162
Angove,Linda	Corporate Secretary	$124,773	$240	$125,013
Anstey,Calvin	Director, Transportation Sector	$110,476	$229	$110,704
Argue,Robert	Director, Applications Develop	$112,460	$229	$112,689
Aronshtam,Masha	Medical Consultant	$128,858	$267	$129,125
Arvisais,J.	Medical Consultant	$135,341	$267	$135,608
Bain,Donna	Exec Dir Health Services Manag	$154,623	$277	$154,900
Belanger,Adele Marie	Legal Counsel	$109,539	$224	$109,763
Bell,Susan	Project Director	$117,727	$229	$117,956
Bennetto,John	Director, Services Sector	$109,219	$221	$109,441
Bishop,M.	Medical Consultant	$131,377	$267	$131,644
Brown,Elizabeth	Legal Counsel	$112,770	$231	$113,000
Burton,Neil	Director, Client Server Develop	$120,462	$235	$120,696
Campbell,Clark	Director, Municipal Education & Electrical Utilities	$108,361	$224	$108,585
Campbell,Colin	Security Architect	$117,847	$159	$118,006
Cantlie,George	Medical Consultant	$128,858	$267	$129,125
Chain,Marybelle	Medical Consultant	$128,858	$267	$129,125
Chan,Thomas	VP Finance & Corp Services & CFO	$181,847	$322	$182,169
Chen,Kathy	Sr Special Database	$111,599	$165	$111,764
Cleary,Floreen	Director, Pre 1990 Claims	$110,943	$224	$111,166
Cude,Beverley	Director, Technology Services	$129,089	$231	$129,320
David,Lawrence	Medical Consultant	$128,858	$267	$129,125
De Domenico,Ivan J.	Medical Consultant	$129,574	$267	$129,841
Deslauriers,Jean	Medical Consultant	$125,757	$258	$126,015
Djan,P. A.	Medical Consultant	$146,427	$247	$146,675
Dorcas,Dow	Medical Consultant	$125,403	$0	$125,403
Douglas,R. A.	Director, Employee Relations	$130,015	$259	$130,274
Dsouza,Irene	Medical Consultant	$106,752	$225	$106,977
Dudley,John	Assoc Director/Physician	$140,421	$285	$140,705
Fahmy,Nadia	Director, Admin Services	$111,943	$231	$112,175
Fedder,Jonathan E.	Director, (Managing) Legal	$108,804	$219	$109,023
Field,Paul	Director, Small Business	$107,099	$217	$107,316
Forsyth-Petrov,Deborah	Director, Sys & Collections	$119,893	$164	$120,058
Forth,Kenneth	Director, Agriculture	$103,644	$211	$103,855
Fortin,Claire Marie	Director, Medical Occupational Disease Policy	$105,912	$218	$106,130
Foster,David	Director, IS Audit	$100,089	$195	$100,284
Frame,David A.	Director, Provider Relations	$105,874	$204	$106,079
Galway,Kathleen	Director, Business Oper Audit	$106,546	$204	$106,751
Garg,S. K.	Medical Consultant	$128,858	$267	$129,125
Geary,Judy	GM CCP & Special Claim Serv.	$181,885	$304	$182,189
Germansky,Martin	Medical Consultant	$128,858	$267	$129,125
Gibbs,Henry	VP Investments	$283,223	$437	$283,660
Gillies,James	Director, Financial Planning	$118,168	$229	$118,397
Hadjiski,Anna	Medical Consultant	$128,858	$267	$129,125
Hall,Nick M.	Director, Automotive Sector	$110,666	$229	$110,894
Hawkins,Adam J.	Director, Realty Investments	$146,576	$241	$146,816
Heckadon,Robert	Assoc Director/Physician	$157,253	$0	$157,253
Herrington,Michael	Director, Small Business	$105,100	$217	$105,317
Hickman,Robert	Medical Consultant	$128,762	$267	$129,029
Higgins,Jodi	Director, Small Business	$115,200	$229	$115,429
Holyoke,Paul	General Counsel	$203,035	$346	$203,381
Horseman,Brock C.	Sr VP Operations	$309,633	$487	$310,120
Houston,Roberta	Legal Counsel	$104,479	$213	$104,693
Johnston, Michael Bruce	Legal Counsel	$106,266	$219	$106,484
Jolley,Linda	VP Policy and Research	$195,393	$320	$195,713
Jones,Derek	Medical Consultant	$122,404	$260	$122,664
Kanalec,Andrew D.	Medical Consultant	$128,858	$267	$129,125
Kelly,J. Brian	Assoc Director/Physician	$145,733	$297	$146,030
Kelly,Linda	Director, Specialist & Adv Serv	$108,557	$209	$108,766
Kempster,Geoff	Director, Manufacturing Sector	$111,457	$227	$111,684
Kerr,Fergus	Director, Mining Sector	$109,148	$222	$109,371
Kosmidis,Elizabeth	Legal Counsel	$112,197	$228	$112,425
Kosmyna,Roman	Board Auditor	$126,164	$252	$126,416
Kulynych,Heidi	Director, Corp. Exec. Office	$135,628	$235	$135,863
Kwong,Paul	Project Director	$122,393	$227	$122,620
Lamanna,Pat	Director, Small Business	$115,336	$237	$115,572
Lamoureux,Linda	Director, SIB	$179,943	$309	$180,252
Lau,Robert Hing	Director, Accounting	$101,914	$207	$102,121
Leshchyshyn,Dana	Director, Construction Sector	$116,232	$241	$116,473
Levitsky,Marianne	Director, Best Practices	$112,749	$219	$112,968
Lewis,Owen	Director, Applications Develop	$115,662	$220	$115,882
Londry,David	Director, Client Server Develop	$120,190	$229	$120,419
Lovelock,Ronald	Director, Prevention Services	$110,875	$220	$111,095
Luck,Mary	Director, Services Sector	$112,970	$234	$113,204
MacDiarmid,Ann	VP Communications	$128,324	$249	$128,573
Maehle,Waldemar	Medical Consultant	$124,757	$258	$125,015
Martin,Peter J.	Director, Compensation	$121,213	$244	$121,457
Mastrilli,Arcangelo	Medical Consultant	$128,858	$267	$129,125
McAdam,Roberta	Director, Revenue Audit Services	$110,789	$224	$111,013
McCarthy,Jane	GM Health Services Admin/ Spec Programs	$172,112	$285	$172,398
McCleave,Dave	Director, Small Business	$107,896	$223	$108,118
McKenna-Boot,Patricia	Medical Consultant	$129,681	$264	$129,945
McMurtrie,Robert	Director, Financial Services	$115,159	$235	$115,394
Meenan,John J.	Medical Consultant	$124,757	$258	$125,015
Mikkelsen,Allan Charles	Finance HR Business Partner	$106,556	$204	$106,760
Morden,Donald Lawrence	VP Human Resources	$200,183	$337	$200,520
Morrison,Richard	Director, Small Business	$109,685	$227	$109,911
Mould,Roy	VP Prevention	$217,506	$337	$217,843
Painvin,Catherine	Director, Clinical Resources	$155,687	$312	$155,999
Peter,Alice	Director, Research Secretariat	$102,256	$208	$102,464
Prichett,Barry	Medical Consultant	$128,858	$267	$129,125
Pushka,Wayne	Assistant Dir & Chief Investigator	$108,068	$219	$108,287
Ramsey,Willard	Actuary, Pricing & Valuation	$152,109	$291	$152,401
Rodenhurst,John D.	Director, Bus Innovations Serv	$101,041	$206	$101,247
Rohatyn,Taras	Director, Small Business	$104,860	$216	$105,076
Sarathy,Partha	Manager, Applications & Devel.	$102,926	$184	$103,110
Schofield,Michel	Physician Coord Speclty Clinic	$145,775	$295	$146,070
Scopa,Fernand	Director, Health Care Sector	$108,791	$222	$109,013
Scullion,Catherine	Medical Consultant	$124,229	$257	$124,486
Sgro,Joseph	Director, Quality Improvement	$115,950	$234	$116,185
Shapiro,Gary	Medical Consultant	$128,858	$267	$129,125
Sherwin,Linda	Medical Consultant	$136,689	$247	$136,936
Shewell,Kathryn	Director, Corp Admin Services	$125,527	$206	$125,733
Simmons,Wayne B.	Director, Investments	$146,659	$290	$146,950
Slinger,John	Director, Appeals	$131,323	$259	$131,582
Stasila,Dave	Director, Investments	$157,746	$293	$158,039
Taraschuk,Ihor	Medical Consultant	$124,757	$258	$125,015
Thomas,Roy E	Exec Director, Communications	$136,749	$242	$136,991
Thomson,Garry	GM Industry Sectors	$177,579	$304	$177,882
Timlin,Robert J.	Project Director	$109,725	$215	$109,940
Todorovic,Slavica	Director, Benefits Policy	$116,925	$237	$117,162
Tourchin,Robert W.	Director, Primary Metal Sector	$105,173	$214	$105,387
Tucker,Cheryl	Director, Community Relations	$105,889	$211	$106,100
Vala Webb,Gordon	Director, Knowledge Services	$117,064	$238	$117,301
Walker,John	Medical Consultant	$128,858	$267	$129,125
Wallace,Tim	Sr Spec, Operating Systems	$103,023	$179	$103,202
Wang,Kennedy	Director, Schedule II Sector	$118,339	$220	$118,558
Weatherbee,Wayne	GM Small Business Services	$179,346	$306	$179,651
Welton,Ian	Director, Revenue Policy	$116,925	$237	$117,162
Wentzell,Scott	Medical Consultant	$101,243	$207	$101,450
Whitney,David	Director, Small Business	$104,778	$215	$104,993
Williams,David	President & CEO	$608,434	$830	$609,265
Williams,Susan	Director, Customer Care	$132,823	$256	$133,080
Wiskin,John	Project Director	$109,548	$220	$109,768
Wright,Glen	Chair of the Board	$168,270	$200	$168,469

Note: The amounts shown as earnings in this disclosure statement may not represent the individual's actual annual rate of salary. The earnings required to be made public under the *Public Sector Salary Disclosure Act 1996* reflect the amount reported to Revenue Canada on the employer's T4 slip for an employee. The earnings shown in this statement may therefore include non-recurring payments in 2002 for retroactive pay from a reclassification or a grievance settlement or a pay-out upon retirement. The earnings shown may also be less than the individual's annual rate of salary if the individual worked only part of the year.

Ten-year history

Workplace Safety and Insurance Board
Ten-year summary of the Statements of Operations and Unfunded Liability

($ Millions)	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
REVENUES										
Premiums for current year	$ 1,997	$ 1,866	$ 1,760	$ 1,707	$ 1,722	$ 1,886	$ 1,917	$ 1,953	$ 1,864	$ 1,969
Investment	246	765	1,128	1,042	982	839	699	578	500	516
	2,243	2,631	2,888	2,749	2,704	2,725	2,616	2,531	2,364	2,485
EXPENSES										
Benefit costs paid	2,883	2,755	2,558	2,195	2,255	2,244	2,368	2,383	2,330	2,434
Net increase (decrease) in benefit liabilities	692	270	125	135	(85)	(1,740)	50	(150)	(75)	400
Injured Workers' Retirement Fund	52	50	46	44	44	43	40	36	31	26
	3,627	3,075	2,729	2,374	2,214	547	2,458	2,269	2,286	2,860
Administrative and other expenses	240	236	247	387	336	341	321	339	331	343
Legislated obligations	160	162	156	145	125	117	98	113	104	100
	4,027	3,473	3,132	2,906	2,675	1,005	2,877	2,721	2,721	3,303
EXCESS(DEFICIENCY) OF REVENUES OVER EXPENSES	(1,784)	(842)	(244)	(157)	29	1,720	(261)	(190)	(357)	(818)
Premiums for unfunded liability	902	860	971	1,061	930	683	693	700	487	314
Transfer of Electrical Utilities from Schedule 2	(52)									
Excess (deficiency) of revenues over expenses, applied to the unfunded liability	(934)	18	727	904	959	2,403	432	510	130	(504)
Unfunded liability										
Beginning of year	5,657	5,675	6,402	7,098	8,057	10,460	10,892	11,402	11,532	11,028
Change in accounting policy				208						
Unfunded liability End of year	$ 6,591	$ 5,657	$ 5,675	$ 6,402	$ 7,098	$ 8,057	$10,460	$10,892	$11,402	$11,532

OTHER STATISTICS

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Schedule 1										
Average premium rate (per $100 of payroll)	$ 2.13	$ 2.13	$ 2.29	$ 2.42	$ 2.59	$ 2.85	$ 3.00	$ 3.00	$ 3.01	$ 2.95
Total insured payroll ($ Millions)	$120,252	$113,727	$109,237	$ 101,654	$96,205	$ 91,497	$86,844	$86,065	$82,818	$84,243
Schedule 1 & 2										
Number of new claims by registration year	361,179	371,067	379,079	364,069	342,687	341,178	345,606	371,837	370,444	368,485
Number of WSIB employees at December 31	4,390	4,513	4,466	4,260	4,057	3,966	4,373	4,597	4,603	4,751

The Workplace Safety and
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