

WCB Nova Scotia

Summary of Financial Results

Third Quarter 2020

Year-to-date results as of September 30th

Year to date, expenses exceeded revenues for a comprehensive loss of \$25.4 million, increasing the unfunded liability. The funded ratio is currently 95.5 per cent compared to 96.5 per cent at December 31, 2019.

- The loss is primarily driven by the COVID-19 pandemic which has introduced volatility to revenue from insured employers and investment income.
 - A 2.9 per cent reduction in insured revenue from the prior year; recovering from second quarter where insured revenue was down nine per cent.
 - Investment returns have rebounded after the selloff at the end of the first quarter, resulting in year-to-date investment income of \$50.7 million. The volatility is likely to continue during the pandemic.
- Claim costs are down 0.2 per cent, primarily due to decreased claims volumes. Challenges with return to work and access to services continue as the global pandemic enters a second phase.
- Estimated unfavourable experience adjustments of \$14.9 million year-to-date primarily related to short-term disability and health care are costs.
- The WCB's operational and financial performance for the last quarter of 2020 will be tied to the future developments with the pandemic. The current approved funding strategy of June 2020 included an expectation of comprehensive loss of \$284 million for the year, based on projected declines in investment returns and insured revenue as time of strategy preparation.
- These results are not necessarily a prediction of what will take place for the remainder of the year, as investment returns and actuarial adjustments may be subject to significant change over the remaining three months of 2020.

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SUMMARY OF FINANCIAL RESULTS THIRD QUARTER 2020

The pandemic has introduced volatility to revenue from insured employers and investment income. Claim volumes are lower than the prior year, notably with the widespread economic shutdowns to combat the spread of the virus and an increase in volumes as the economy began to more broadly open in the third quarter. It is anticipated that the operational and financial performance for the last quarter of 2020 will be tied to the future developments with the pandemic.

Statement of Financial Position

WCB Nova Scotia's (WCB) asset base at September 30, 2020 was \$2,103.1 million, an increase of \$ 109.4 million as compared to September 30, 2019. This was primarily due to increases in the market value of investments.

Benefits for injuries occurring during the year are paid in the year of injury and for some workers, for many years in the future. The WCB maintains a diversified investment portfolio to secure the payment of benefits in the future. The WCB benchmark investment portfolio asset mix as at September 30, 2020 includes public equity at 43 per cent, fixed income at 32 per cent, hedge funds at 9 per cent, real estate at 10 per cent and alternative investments at 6 per cent. At any given time, the fund's asset allocation may differ from the benchmark.

Benefits liabilities of \$2,097.3 million at September 30, 2020 increased \$15.7 million from September 30, 2019. These liabilities have been estimated for the first nine months of the year based on an extrapolation performed on data as of September 30, 2020 and projected forward for the remainder of the year. Benefits liabilities estimates could vary significantly when the annual valuation is prepared by an independent actuarial consultant at year end.

During the past twelve months, the unfunded liability decreased \$64.7 million to \$99.6 million as of September 30, 2020.

Statement of Operations

There was a comprehensive loss of \$25.4 million for the nine months ended September 30, 2020, resulting in an increase to the unfunded liability. The current funding strategy, approved in June 2020 forecasted a comprehensive loss of \$284.4 million based on the information available at that time. The impact on the funding strategy will be measured as the variance of the 2020 comprehensive income to the funding strategy forecast. These results are not necessarily a prediction of what will take place for the remainder of the year. Investment returns and actuarial adjustments may be subject to significant change over the next three months.

As the date when the unfunded liability will be eliminated approaches, the sensitivity to changes increases with any negative impacts representing a challenge as there will be limited market cycles over which to recover. Looking forward, further challenges to the funded ratio will be introduced with the implementation of IFRS 17– Insurance Contracts with an effective date of January 1, 2023. This standard will have material impacts for the WCB’s financial reporting, as discussed in the 2019 annual report. One of the most significant changes is the move to market based interest rates used to discount the future cash flows of the benefits liabilities which is expected to lead to an increase in the benefits liabilities on the statement of financial position and increase volatility in reported income. This standard will introduce volatility to the funded ratio on a financial statement reporting basis.

Revenue

Assessment revenue year-to-date is \$229.9 million comprised of insured firms’ revenue of \$223.8 million and \$6.1 million from administering self-insured claims. Insured revenue decreased \$5.1 million (2.9 per cent) versus the same period in 2019. Insured firms’ revenue also includes funds collected for rebate and refund programs.

Investment income year-to-date is \$50.7 million, a decrease of \$135.1 million over the same period in 2019. The year-to-date return was 2.8 per cent. The year-to-date return reflects the COVID-19 markets selloff at the end of the first quarter that resulted in an investment loss of \$167.6 million offset as investments rebounded in the second and third quarters in response to global monetary and fiscal stimulus programs with a gain of \$218.3 million. The fund is diversified and positioned for long term results.

Results year-to-date are not necessarily indicative of what will happen during the remainder of the year.

Claims Costs Incurred, Growth in Present Value of Benefits Liability and Experience Adjustments

Claims costs incurred of \$154.0 million are a decrease of \$0.3 million (0.2 per cent) over the same period of 2019 and are estimated for the first nine months of the year based on an extrapolation of current and future years’ costs.

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was \$94.8 million. The growth component was \$79.9 million, and increased by estimated unfavourable actuarial experience adjustments of \$14.9 million related to Short Term Disability and Health Care costing more than previous valuations expected. The experience adjustment planned within the funding strategy forecast expected year-to-date gains of \$15 million.

Administrative Expenditures (Operating, Projects, and Capital)

Year-to-date operating expenditures were \$40.9 million with a \$3.1 million favourable variance from the \$44.0 million year-to-date budget, excluding capital and projects. Including projects and capital, the total administrative variance was a favourable \$4.4 million on expenditures of \$47.4 million versus the \$51.8 million budget. Favourable variances primarily relate to salary, depreciation, services contracted, travel, capital and projects. A portion of these variances are not expected to be utilized by year end.

Legislated Obligations

Legislated Obligations expenditures were \$12.3 million with a \$1.9 million favourable variance from budget. This was predominantly in Occupational Health and Safety and the Workers' Advisers Program with a smaller favourable variance in the Workers' Compensation Appeals Tribunal.

Statement of Cash Flow

The Statement of Cash Flows demonstrates cash of \$3.5 million at September 30, 2020. This was an increase of \$6.3 million from September 30, 2019.

**WCB NOVA SCOTIA
STATEMENT OF FINANCIAL POSITION
AS AT**

| | SEPTEMBER 30 2020 (Unaudited) (\$000s) | SEPTEMBER 30 2019 (Unaudited) (\$000s) | DECEMBER 31 2019 (Audited) (\$000s) |
|---|---|---|--|
| Assets | | | |
| Cash & cash equivalents | \$ 3,537 | \$ - | \$ 11,082 |
| Receivables | 56,874 | 37,827 | 39,816 |
| Investments | 2,007,357 | 1,917,901 | 1,957,305 |
| Property and equipment | 5,835 | 6,590 | 6,493 |
| Intangible assets | <u>29,458</u> | <u>31,337</u> | <u>32,126</u> |
| | \$ <u>2,103,061</u> | \$ <u>1,993,655</u> | \$ <u>2,046,822</u> |
| Liabilities and Unfunded Liability | | | |
| Bank indebtedness | \$ - | \$ 2,745 | \$ - |
| Payables, accruals & lease liabilities | 59,546 | 36,992 | 51,019 |
| Post employment benefits | 31,127 | 24,615 | 29,552 |
| Benefits liabilities | <u>2,097,303</u> | <u>2,081,583</u> | <u>2,040,415</u> |
| | 2,187,976 | 2,145,935 | 2,120,986 |
| Deferred revenue | 14,650 | 12,000 | - |
| Unfunded liability | <u>(99,565)</u> | <u>(164,280)</u> | <u>(74,164)</u> |
| | \$ <u>2,103,061</u> | \$ <u>1,993,655</u> | \$ <u>2,046,822</u> |

**WCB NOVA SCOTIA
STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(UNAUDITED)**

| | THIRD QUARTER 2020 (\$000s) | THIRD QUARTER 2019 (\$000s) | YTD SEPTEMBER 30 2020 (\$000s) | YTD SEPTEMBER 30 2019 (\$000s) |
|--|--------------------------------------|--------------------------------------|---|---|
| Revenue | | | | |
| Assessments | \$ 87,531 | \$ 78,645 | \$ 229,859 | \$ 234,410 |
| Investment income | 56,231 | 21,828 | 50,699 | 185,828 |
| | <u>143,762</u> | <u>100,473</u> | <u>280,558</u> | <u>420,238</u> |
| Expenses | | | | |
| Claims costs incurred | | | | |
| Short-term disability | 15,160 | 11,026 | 38,738 | 33,078 |
| Long-term disability | 23,732 | 24,902 | 71,941 | 74,705 |
| Survivor benefits | 279 | 603 | 971 | 1,810 |
| Health care | 13,559 | 14,622 | 41,450 | 43,866 |
| Rehabilitation | 477 | 265 | 893 | 794 |
| | <u>53,207</u> | <u>51,418</u> | <u>153,993</u> | <u>154,253</u> |
| Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease | 29,359 | 23,018 | 94,826 | 69,054 |
| Administration costs | 15,027 | 12,633 | 44,048 | 43,358 |
| System support | 264 | 252 | 763 | 742 |
| Legislated obligations | <u>3,728</u> | <u>4,395</u> | <u>12,329</u> | <u>13,320</u> |
| | <u>101,585</u> | <u>91,716</u> | <u>305,959</u> | <u>280,727</u> |
| Excess of revenues over expenses (expenses over revenues), applied to reduce (increase) the unfunded liability | <u>\$ 42,177</u> | <u>\$ 8,757</u> | <u>\$ (25,401)</u> | <u>\$ 139,511</u> |

WCB NOVA SCOTIA
STATEMENT OF CHANGES IN UNFUNDED LIABILITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(UNAUDITED)

| | THIRD QUARTER 2020 (\$000s) | THIRD QUARTER 2019 (\$000s) | YTD SEPTEMBER 30 2020 (\$000s) | YTD SEPTEMBER 30 2019 (\$000s) |
|--|--------------------------------------|--------------------------------------|---|---|
| Unfunded liability excluding accumulated other comprehensive income | | | | |
| Balance, beginning of period | \$ (141,742) | \$ (173,037) | \$ (66,962) | \$ (301,084) |
| Excess of revenues over expenses (expenses over revenues), applied to reduce (increase) the unfunded liability | <u>42,177</u> <u>(99,565)</u> | <u>8,757</u> <u>(164,280)</u> | <u>(25,401)</u> <u>(92,363)</u> | <u>139,511</u> <u>(161,573)</u> |
| Accumulated other comprehensive income | | | | |
| Balance, beginning of Year | - | - | (7,202) | (2,707) |
| No change in balance during period | <u>-</u> | <u>-</u> | <u>(7,202)</u> | <u>(2,707)</u> |
| Unfunded liability end of period | <u>\$ (99,565)</u> | <u>\$ (164,280)</u> | <u>\$ (99,565)</u> | <u>\$ (164,280)</u> |

**WCB NOVA SCOTIA
STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(UNAUDITED)**

| | SEPTEMBER 30 2020 (\$000's) | SEPTEMBER 30 2019 (\$000's) |
|--|--|--|
| Operating Activities | | |
| Cash received from: | | |
| Employers, for assessments | \$ 225,785 | \$ 240,376 |
| Investment loss | <u>(3,850)</u> | <u>(1,547)</u> |
| | 221,935 | 238,829 |
| Cash paid to: | | |
| Claimants or third parties on their behalf | (189,863) | (182,487) |
| Suppliers, for administrative and other goods and services | <u>(42,882)</u> | <u>(47,800)</u> |
| | (232,745) | (230,287) |
| Net cash (used in) provided by operating activities | <u>(10,810)</u> | <u>8,542</u> |
| Investing Activities | | |
| Decrease in investments | 4,500 | 1,980 |
| Cash paid for: | | |
| Purchase of equipment and intangible assets | <u>(1,235)</u> | <u>(4,575)</u> |
| Net cash provided by (used in) investing activities | <u>3,265</u> | <u>(2,595)</u> |
| Net (decrease) increase in cash and cash equivalents | <u>(7,545)</u> | <u>5,947</u> |
| Cash and cash equivalents, (bank indebtedness), beginning of year | <u>11,082</u> | <u>(8,692)</u> |
| Cash and cash equivalents, (bank indebtedness), end of period | <u>\$ 3,537</u> | <u>\$ (2,745)</u> |

Notes to Financial Statements

1. Basis of Presentation of Interim Financial Statements

Interim financial statements should be read in conjunction with the most recent annual audited Financial Statements (December 31, 2019) and present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies as at September 30, 2020, including 2019 comparative figures.

The interim financial statements are prepared on a basis consistent with annual financial statements with the exception of claims costs incurred and the growth in the present value of the benefits liabilities and actuarial experience adjustments. These figures were determined by an extrapolation of current and future years' claims' costs. Benefits liabilities estimates could vary significantly when the annual valuation is prepared by an independent actuarial consultant at year end. In addition, these interim financial statements do not include all the information required for annual financial statements.

2. Statement of Financial Position

Receivables include insured firms' premiums received up to the remittance due date of the 15th of the month following quarter end and an estimate for amounts due but not yet reported by employers, and self-insured employers receipts, and are net of the allowance for doubtful accounts and self-insured deposits.

Investments include the investment portfolio held to secure the payment of benefits in the future.

Property and equipment and intangible assets are stated at cost less accumulated depreciation.

Benefits liabilities represent an estimate based on assumptions used in the funding strategy for claims costs incurred and projected inflation. These figures are determined by estimation and the mid-year valuation for purposes of interim financial statements.

3. Statement of Operations

Assessments

The WCB receives two types of assessment revenue. Most employers pay an insurance premium with rates established based on prior years' experience. Assessment revenue for insured firms is recognized based on the requirement for employers to report and pay premiums periodically throughout the year based on actual assessable payroll and includes classified employers' premiums received up to the remittance due date of the 15th of the month following quarter end and a provision for amounts due but not yet reported by employers.

The federal and provincial government agencies and departments are self-insured. Rather than paying an insurance premium, they reimburse the WCB for claims costs incurred on their behalf plus an administrative fee. The administration fee charged for the processing of these claims is included in Revenue.

Investment Income

Investment income consists of income from the long term investment portfolio (interest, dividends, gains and losses arising from foreign currency, realized and unrealized gains and losses). Unrealized gains and losses result from the change in fair value of an investment. Investment income is presented net of investment expenses.

Claims Costs Incurred

The estimates for short term disability, health care, rehabilitation, long term disability and survivor benefits were derived as follows:

- Estimates for insured firms' were determined by an actuarial valuation for purposes of the year end and through a mid-year valuation and extrapolation of current and future years' claims costs for purposes of this quarter's interim financial statements.

Growth in Present Value of Benefits Liability and Actuarial Experience Adjustments

Quarterly statements provide an estimate for the growth in present value based on the net interest rates of the prior year valuation and expected inflation for the quarter. There is an estimated provision for actuarial experience adjustments based on a mid- year valuation and the extrapolation of year to date claims costs for current and prior years for the purpose of the interim financial results.

4. Cash Flow Statement

This statement summarizes cash receipts and disbursements from all sources.

5. Administration Expenses

Operating expenses are shown by Program Area (type of expenditure).

