

**Workers' Compensation Board of Nova Scotia  
Summary of Financial Results  
First Quarter 2015**

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## **SUMMARY OF FINANCIAL RESULTS FIRST QUARTER 2015**

### **Statement of Financial Position**

The Workers' Compensation Board of Nova Scotia's (WCB) asset base at March 31, 2015 was \$1,594.2 million, an increase of \$155.9 million as compared to March 31, 2014. This was primarily due to an increase 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 an investment portfolio to secure the payment of benefits in the future. The WCB's benchmark investment portfolio asset mix as at March 31, 2015 includes equity at 60%, fixed income at 30% and real estate at 10%.

Benefits liabilities of \$1,908.1 million increased \$19.2 million from March 31, 2014 to March 31, 2015. These liabilities have been estimated based on an extrapolation of year to date claims payments for current and prior years and the yearend valuation performed at December 31. Benefits liabilities estimates could vary significantly when the annual valuation is prepared by an independent actuarial consultant at year end.

### **Statement of Operations and Unfunded Liability**

There was Comprehensive Income of \$80.2 million for the three months ended March 31, 2015, decreasing the unfunded liability. The current funding strategy, approved in June 2014, anticipated comprehensive income for 2015 of \$61.2 million. The year to date comprehensive income is primarily driven by investment returns and favourable actuarial experience adjustments. The impact on the funding strategy will be measured as the variance of the 2015 comprehensive income to the funding strategy estimate.

### **Revenue**

Assessment revenue year to date is \$72.2 million composed of insured firms' revenue of \$62.7 million and self-insured revenue of \$9.5 million. Revenue increased \$0.8 million (1.1%) versus the same period in 2014 and reflects increased insured firms' assessment premium revenue of \$0.4 million and \$0.4 million increase in self insured revenue over the same period in 2014. Insured firms' revenue is net of funds collected for rebate and refund programs of \$1.0 million.

Investment income year to date is \$89.7 million, an increase of \$34.0 million over the same period in 2014. Investment income is derived from income on long term investments managed by external investment managers and is the result of interest and dividends of \$13.4 million, realized gains of \$85.3 million, unrealized gains of \$8.1 million, realized currency overlay losses of \$6.8 million and unrealized currency overlay losses of \$9.0 million less \$1.3 million in management fees. The three month return was

6.1%. History has shown that investment markets are volatile and therefore the results in the first quarter are not necessarily indicative of what will happen the rest of the year.

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

Claims costs incurred of \$51.2 million are an increase of \$0.3 million (0.5%) over year to date 2014 and are estimated based on an extrapolation of year to date claims payments for current and prior years' injuries and a year end valuation performed at December 31.

The year to date net growth in the present value of the benefits liability and actuarial experience adjustments was \$14.8 million. The growth component was \$27.4 million (including a \$0.05 million estimate for latent occupational disease) and is offset by the estimated favourable actuarial experience adjustments of \$12.5 million. Favourable actuarial experience adjustments are currently projected in all benefits categories except short term disability and rehabilitation. The current funding strategy anticipates favourable experience adjustments for the year of \$50.0 million.

### **Administrative Expenditures (Operating, Projects, and Capital)**

Year to date administrative expenditures were \$12.5 million.

### **Legislated Obligations**

Legislated Obligations expenditures were \$3.7 million with a \$0.4 million favourable variance from the year to date budget estimate. This is attributable to Occupational Health and Safety, the Workers Compensation Appeals Tribunal.

### **Statement of Cash Flow**

The Statement of Cash Flows demonstrates the use of cash for the year to date on a comparative basis. Total cash and cash equivalents were \$0 million at March 31, 2015, a decrease of \$11.2 million from the March 31, 2014 cash position. Bank indebtedness of \$3.2 million was reported on the financial statements.

**WORKERS' COMPENSATION BOARD OF NOVA SCOTIA  
STATEMENT OF FINANCIAL POSITION  
AS AT**

	<b>MARCH 31 2015 (Unaudited) (\$000s)</b>	<b>MARCH 31 2014 (Unaudited) (\$000s)</b>	<b>DECEMBER 31 2014 (Audited) (\$000s)</b>
<b>Assets</b>			
Cash & cash equivalents	\$ -	\$ 11,189	\$ 3,804
Receivables	22,550	24,578	25,378
Investments	1,566,405	1,397,512	1,476,748
Property and equipment	4,326	4,452	4,402
Intangible assets	<u>876</u>	<u>566</u>	<u>917</u>
	<u>\$ 1,594,157</u>	<u>\$ 1,438,297</u>	<u>\$ 1,511,249</u>
<b>Liabilities and Unfunded Liability</b>			
Bank indebtedness	\$ 3,225	-	-
Payables and accruals	26,799	\$ 33,834	33,801
Lease liabilities	149	225	171
Post employment benefits	28,744	22,899	28,158
Benefits liabilities	<u>1,908,074</u>	<u>1,888,897</u>	<u>1,903,556</u>
	1,966,991	1,945,855	1,965,686
Deferred revenue	1,388	5,417	
Unfunded liability	<u>(374,222)</u>	<u>(512,975)</u>	<u>(454,437)</u>
	<u>\$ 1,594,157</u>	<u>\$ 1,438,297</u>	<u>\$ 1,511,249</u>

**WORKERS' COMPENSATION BOARD OF NOVA SCOTIA  
STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED MARCH 31  
(UNAUDITED)**

	<b>FIRST QUARTER 2015 (\$000s)</b>	<b>FIRST QUARTER 2014 (\$000s)</b>
<b>Revenue</b>		
Assessments	\$ 72,173	\$ 71,408
Investment income	89,734	55,777
	<u>161,907</u>	<u>127,185</u>
<b>Expenses</b>		
Claims costs incurred		
Short-term disability	10,236	9,749
Long-term disability	25,484	25,303
Survivor benefits	1,338	1,734
Health care	13,773	13,757
Rehabilitation	319	365
	<u>51,150</u>	<u>50,908</u>
Growth in present value of benefits liabilities and actuarial adjustments	14,845	21,564
Administration costs	11,790	11,356
System support	230	239
Legislated obligations	3,677	3,864
	<u>81,692</u>	<u>87,931</u>
<b>Excess of revenues over expenses applied to reduce the unfunded liability</b>	<b>\$ 80,215</b>	<b>\$ 39,254</b>

**WORKERS' COMPENSATION BOARD OF NOVA SCOTIA**  
**STATEMENT OF CHANGES IN UNFUNDED LIABILITY**  
**FOR THE THREE MONTHS ENDED MARCH 31**  
**(UNAUDITED)**

	<b>FIRST QUARTER 2015 (\$000s)</b>	<b>FIRST QUARTER 2014 (\$000s)</b>
<b>Unfunded liability excluding accumulated other comprehensive income</b>		
Balance, beginning of period	\$ (444,927)	\$ (546,488)
Excess of revenues over expenses	<u>80,215</u> <u>(364,712)</u>	<u>39,254</u> <u>(507,234)</u>
<b>Accumulated other comprehensive income</b>		
No change in balance during the period	<u>(9,510)</u>	<u>(5,741)</u>
<b>Unfunded liability end of period</b>	<b>\$ <u>(374,222)</u></b>	<b>\$ <u>(512,975)</u></b>

**WORKERS' COMPENSATION BOARD OF NOVA SCOTIA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31**  
**(UNAUDITED)**

	March 31 2015 (\$000's)	March 31 2014 (\$000's)
<b>Operating Activities</b>		
Cash received from:		
Employers, for assessments	\$ 76,557	\$ 75,869
Investment income	<u>90,585</u>	<u>5,314</u>
	167,142	81,183
 Cash paid to:		
Claimants or third parties on their behalf	(60,079)	(58,200)
Suppliers, for administrative and other goods and services	<u>(23,414)</u>	<u>(12,306)</u>
	(83,493)	(70,506)
 <b>Net cash provided by operating activities</b>	 <u>83,649</u>	 <u>10,677</u>
<b>Investing Activities</b>		
Increase in investments	(90,504)	(5,728)
Cash paid for:		
Purchase of equipment	<u>(174)</u>	<u>(119)</u>
 <b>Net cash used in investing activities</b>	 <u>(90,678)</u>	 <u>(5,847)</u>
<b>Financing Activities</b>		
Change in bank indebtedness	<u>3,225</u>	<u>-</u>
 <b>Net cash used by financing activities</b>	 <u>3,225</u>	 <u>-</u>
 <b>Net (decrease) increase in cash and cash equivalents</b>	 <u>(3,804)</u>	 <u>4,830</u>
Cash and cash equivalents, beginning of year	<u>3,804</u>	<u>6,359</u>
 <b>Cash and cash equivalents, end of period</b>	 <u>\$ -</u>	 <u>\$ 11,189</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, 2014) and present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies as at March 30, 2015, including 2014 comparative.

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 year to date claims payments for current and prior years and the year end valuation. 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 15<sup>th</sup> 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 a 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 15<sup>th</sup> 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. Self insured revenue relates to amounts billed for the year to date of the calendar year.

### **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 from the prior year end and through estimation and extrapolation of current results for purposes of interim financial statements.
- Actual invoiced payments for self-insured firms were added to these estimates.

### **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 actuarial valuation for the purpose of the interim financial results and the extrapolation of year to date claims costs for current and prior years.

#### **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).

## **Glossary of Benefit Categories**

### **Short Term Disability Benefits**

All income benefits during the initial period after the injury, before the injury has stabilized, reached a plateau, or consolidated. The time at which an injury stabilizes depends on the type of injury and the workers' condition. Short-term disability benefits include income benefits during a rehabilitation period.

### **Long Term Disability Benefits**

All income benefits after the short-term disability benefits have ceased and after the injury is deemed by the Board to be sufficiently stabilized, to have reached a plateau, or to have consolidated. Long-term disability benefits include lifetime pension awards, lump sum functional impairment awards, interim earnings replacement awards, and extended earnings replacement benefits.

### **Survivor Benefits**

All benefits after the death of the worker provided to the surviving spouse, children, other dependents or the workers' estate, including income benefits, lump sum benefits, education benefits, and funeral costs.

### **Health Care Benefits**

All benefits related to providing medical aid or health care to the injured worker, including items such as hospital charges, physician fees, drugs, and physical therapy.

### **Rehabilitation Benefits**

All amounts related to the rehabilitation of an injured worker, including vocational and psychological rehabilitation costs. Rehabilitation benefits exclude income benefits to the injured worker during the rehabilitation period.

## **Glossary of Administration Expenses by Program Area**

### **Salaries & Staff Expense:**

Salaries, vacation pay, overtime, group insurance, hospital/medical benefits, CPP, employment insurance, superannuation, sitting fees, long term disability, post-employment benefits, standby pay, voluntary retirement, recruitment, recognition, arrangements and relocation costs

### **Professional Fees:**

Audit fees, consultants, and legal fees

### **Depreciation:**

Depreciation of the fixed assets and intangible assets over their useful life

### **Projects:**

General projects

### **Supplies:**

Photocopying, postage and courier, computer supplies, office supplies, records and periodicals

### **Building Operations:**

Repairs and maintenance, rent, supplies, cleaning, utilities, taxes, insurance, rental of equipment, equipment leases and miscellaneous

### **Communications:**

Advertising, art services, printing, telephone services, smart phones and data line communications

### **Services Contracted:**

Maintenance and services of equipment, services contracted for temporary backfill of vacant staff positions

### **Travel and Accommodations:**

Accommodations, meals, travel, room rentals, workers and witnesses travel expenses

### **Training and Development:**

Supply costs for training aids, course fees, books, training related accommodations, training related travel, training related meals and corporate and staff membership dues