

WCB Nova Scotia Summary of Financial Results First Quarter 2022

Year-to-date results as of March 31, 2022

Year-to-date, expenses exceeded revenues for a comprehensive loss of \$163.2 million, decreasing the funded position. The funded ratio is currently 99.3 per cent compared to 106.4 per cent at December 31, 2021.

- The comprehensive loss is primarily due to:
 - Investment losses – negative market returns in the first three months returning -5.3 per cent resulting in an investment loss of \$125.5 million.
 - Claims cost incurred increased in short term and long term disability over the prior first quarter and is up 10.7 per cent. The increase in short term disability is primarily due to increased claim volumes flowing from increased economic activity and claims related to COVID-19. While volumes are up, durations are down indicating the increase in volume is among less serious injuries. The long term disability increase is driven by volumes and wages that are larger than expected based on historical patterns.
 - Unfavourable experience is projected in long term disability and partially offset by favourable experience in short term disability.
- The current approved funding strategy of June 2021 projected comprehensive income of \$40.9 million for the year.
- 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 nine months of 2022.

Prepared By: Financial Services

Date: June 20, 2022

Table of Contents

Summary of Financial Results	3
Statement of Financial Position	6
Statement of Operations	7
Statement of Changes in the Funded Position	8
Statement of Cash Flows	9
Notes to Quarterly Financial Statements	10

SUMMARY OF FINANCIAL RESULTS FIRST QUARTER 2022

Statement of Financial Position

The WCB Nova Scotia's (WCB) asset base at March 31, 2022 was \$2,367.0 million, an increase of \$160.7 million as compared to March 31, 2021. This was primarily due to an increase in investments held at March 31 and a contribution of \$67.4 million from the Province of NS from changes to firefighter regulations.

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 March 31, 2022 includes public equities at 33 per cent, fixed income at 31 per cent, hedge funds at 8 per cent, real estate at 9 per cent and alternative investments at 19 per cent. At any given time, the fund's asset allocation may differ from the benchmark.

Benefits liabilities of \$2,230.5 million at March 31, 2022 increased \$142.9 million from March 31, 2021. These liabilities have been estimated for the first three months of the year based on an extrapolation performed on data as of March 31, 2022 and projected forward for the remainder of the year. Benefits liabilities estimates could vary when the annual valuation is prepared by an independent actuarial consultant at year-end.

For March 31, 2022, financial results show an unfunded position of \$16.7 million as of March 31, 2022. This is a \$45.2 million reduction from the funded position as at March 31, 2021.

Statement of Operations

There was a comprehensive loss of \$163.2 million for the three months ended March 31, 2022, resulting in a decrease in the funded position from year-end. The current funding strategy, approved in June 2021 projected a comprehensive income of \$40.9 million based on the information available at that time. The impact on the funding strategy will be measured as the variance of the 2022 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 nine months.

There will be on-going volatility related to the funded position. Looking forward, the implementation of IFRS 17 - Insurance Contracts, with an effective date of January 1, 2023, will introduce volatility to the funded ratio on a financial statement-reporting basis. This standard will have material impacts for the WCB's financial reporting, as discussed

in the 2021 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 comprehensive income.

Revenue

Assessment revenue year-to-date is \$81.1 million comprised of insured firms' revenue of \$79.1 million and \$2.0 million from administering self-insured claims. Insured revenue increased \$6.2 million (8.5 per cent) versus the same period in 2021. The increase is primarily driven by payroll growth. Insured firms' revenue also includes funds collected for rebate and refund programs.

Investment income year-to-date is a loss of \$125.5 million. This reflects a negative year-to-date return of 5.3 per cent. 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 \$61.0 million are an increase of \$5.9 million (10.7 per cent) over the same period of 2021 and are estimated for the three months of the year based on an extrapolation of current and future years' costs. Short term disability is up in volume as claim volumes have increased with economic activity.

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was \$37.8 million. The growth component was \$28.5 million combined with estimated net unfavourable experience adjustments of \$9.3 million. This unfavourable adjustment related primarily to a larger number of EERBs than expected and higher average EERB awards than expected.

Administrative Expenditures (Operating, Projects Expense, and Capital)

Year-to-date operating expenditures were \$15.0 million with a \$0.7 million favourable variance from the \$15.7 million year-to-date budget, excluding capital and projects. Including projects and capital, the total administrative variance was a favourable \$1.3 million on expenditures of \$16.2 million versus the \$17.5 million budget. Favourable variances primarily relate to salaries, projects, building operations, depreciation, and communications, with smaller favourable variances in other programs.

Legislated Obligations

Legislated Obligations expenditures were \$4.9 million with a \$0.2 million favourable variance from budget. Occupational Health and Safety, the Workers Advisors program

and the Workers' Compensation Appeals Tribunal all reported favourable variances.

Statement of Cash Flow

The Statement of Cash Flows demonstrates cash of \$76.4 million at March 31, 2022. This was an increase of \$72.5 million from March 31, 2021 and primarily related to a cash contribution from the Province of Nova Scotia of \$67.4 million on March 31, 2022. The contribution provides for the initial liabilities for additional coverage in amendments to the Firefighters Compensation Regulations under the Workers' Compensation Act. The amended regulations take effect July 1, 2022.

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

	MARCH 31 2022 (Unaudited) (\$000s)	MARCH 31 2021 (Unaudited) (\$000s)	DECEMBER 31 2021 (Audited) (\$000s)
Assets			
Cash & cash equivalents	\$ 76,420	\$ 3,871	\$ 3,565
Receivables	37,844	29,383	50,143
Investments	2,223,521	2,139,499	2,349,157
Property and equipment	4,283	5,213	4,138
Intangible assets	<u>24,910</u>	<u>28,264</u>	<u>25,315</u>
	<u>\$ 2,366,978</u>	<u>\$ 2,206,230</u>	<u>\$ 2,432,318</u>

Liabilities and (Unfunded) Funded Position

Payables, accruals & lease liabilities	\$ 118,238	\$ 48,883	\$ 58,947
Post employment benefits	26,997	35,353	26,635
Benefits liabilities	<u>2,230,464</u>	<u>2,087,563</u>	<u>2,200,265</u>
	2,375,699	2,171,799	2,285,847
Deferred Revenue	8,000	6,000	-
(Unfunded) Funded position	<u>(16,721)</u>	<u>28,431</u>	<u>146,471</u>
	<u>\$ 2,366,978</u>	<u>\$ 2,206,230</u>	<u>\$ 2,432,318</u>

**WCB NOVA SCOTIA
STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED)**

	YTD MARCH 31 2022 (\$000s)	YTD MARCH 31 2021 (\$000s)
Revenue		
Assessments	\$ 81,110	\$ 74,997
Investment (loss)	<u>(125,456)</u>	<u>(57)</u>
	<u>(44,346)</u>	<u>74,940</u>
Expenses		
Claims costs incurred		
Short-term disability	13,963	13,662
Long-term disability	28,621	26,462
Survivor benefits	353	525
Health care	17,878	14,296
Rehabilitation	<u>176</u>	<u>154</u>
	60,991	55,099
Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease	37,839	34,213
Administration costs	14,865	14,265
System support	257	251
Legislated obligations	<u>4,894</u>	<u>4,774</u>
	<u>118,846</u>	<u>108,602</u>
Excess of expenses over revenues applied to reduce the funded position	\$ <u>(163,192)</u>	\$ <u>(33,662)</u>

WCB NOVA SCOTIA
STATEMENT OF CHANGES IN THE (UNFUNDED) FUNDED POSITION
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED)

	YTD	YTD
	MARCH 31	MARCH 31
	2022	2021
	(\$000s)	(\$000s)
<hr/>		
Funded (Unfunded) position excluding accumulated other comprehensive income		
Balance, beginning of period	\$ 146,474	\$ 72,516
Excess of expenses over revenues applied to reduce the funded position	<u>(163,192)</u>	<u>(33,662)</u>
	<u>(16,718)</u>	<u>38,854</u>
Accumulated other comprehensive income		
Balance, beginning of Year	(3)	(10,423)
	<u>(3)</u>	<u>(10,423)</u>
(UNFUNDED) FUNDED POSITION, END OF PERIOD	\$ <u>(16,721)</u>	\$ <u>28,431</u>

**WCB NOVA SCOTIA
STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31
(UNAUDITED)**

	MARCH 31 2022 (\$000's)	MARCH 31 2021 (\$000's)
Operating Activities		
Cash received from:		
Employers, for assessments	\$ 93,802	\$ 85,383
Investment Income	6,264	5,223
	<u>100,066</u>	<u>90,606</u>
Cash paid to:		
Claimants or third parties on their behalf	(68,288)	(68,504)
Suppliers, for administrative and other goods and services	48,087	(9,778)
	<u>(20,201)</u>	<u>(78,282)</u>
Net cash provided by operating activities	<u>79,865</u>	<u>12,324</u>
Investing Activities		
Increase in investments, net	(73,478)	(5,034)
Cash paid for:		
Purchase of equipment and intangible assets	(909)	(679)
Contribution from Province Of Nova Scotia	67,377	-
	<u>(7,010)</u>	<u>(5,713)</u>
Net cash used in investing activities	<u>(7,010)</u>	<u>(5,713)</u>
Net increase in cash and cash equivalents	<u>72,855</u>	<u>6,611</u>
Cash and cash equivalents, (bank indebtedness) beginning of year	<u>3,565</u>	<u>(2,740)</u>
Cash and cash equivalents, end of period	<u>\$ 76,420</u>	<u>\$ 3,871</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, 2021) and present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies as at March 31, 2022, including 2021 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 yearend 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).

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.

