

# WCB Nova Scotia Summary of Financial Results Second Quarter 2022

## Year-to-date results as of June 30, 2022

Year-to-date, expenses exceeded revenues for a comprehensive loss of \$358.2 million, decreasing the funded position. The funded ratio is currently 91.3 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 six months returning -11.1 per cent resulting in an investment loss of \$283.4 million.
  - Claims cost incurred increased primarily in long term disability and healthcare over the prior year to date and is up 12.1 per cent. The long term disability increase is driven by volumes and wages that are higher and a lower age than expected based on historical patterns.
  - Unfavourable experience adjustments are estimated at \$67 million for the year; and year to date are projected at \$33.7 million. Adjustments primarily relate to long term disability.
- The current approved funding strategy of June 2022 forecasts a comprehensive loss of \$137.0 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 six months of 2022.

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## **SUMMARY OF FINANCIAL RESULTS SECOND QUARTER 2022**

### **Statement of Financial Position**

The WCB Nova Scotia's (WCB) asset base at June 30, 2022 was \$2,224.9 million, a decrease of \$88.1 million as compared to June 30, 2021. This was primarily due to an decrease in investments held as at June 30.

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 June 30, 2022 includes public equities at 33 per cent, fixed income at 31 per cent, hedge funds at 9 per cent, real estate at 8 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 \$2,278.2 million at June 30, 2022 increased \$155.1 million from June 30, 2021. These liabilities have been estimated for the first six months of the year based on an a mid year valuation performed on data as of June 30, 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 June 30, 2022, financial results show an unfunded position of \$211.7 million as of June 30, 2022. This is a \$304.3 million reduction from the funded position as at June 30, 2021.

### **Statement of Operations**

There was a comprehensive loss of \$358.2 million for the six months ended June 30, 2022, resulting in a decrease in the funded position from year-end. The current funding strategy, approved in June 2022 forecasts a comprehensive loss of \$137.0 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. 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 six 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 could 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 could lead to increased volatility in the reported benefits liabilities on the statement of financial position, which may lead to increase volatility in comprehensive income.

## **Revenue**

Assessment revenue year-to-date is \$182.7 million comprised of insured firms' revenue of \$178.8 million and \$3.9 million from administering self-insured claims. Insured revenue increased \$20.8 million (13.2 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 \$283.4 million. This reflects a negative year-to-date return of 11.1 per cent. The fund is diversified and positioned for long-term results.

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

Claims costs incurred of \$125.6 million are an increase of \$13.5 million (12.1 per cent) over the same period of 2021 and are estimated for the six months of the year based on a mid year valuation of current and future years' costs. Claims cost incurred increased primarily in long term disability driven by volumes and wages that are higher than expected based on historical patterns.

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was \$91.9 million. The growth component was \$58.2 million combined with estimated net unfavourable experience adjustments of \$33.7 million. This unfavourable adjustment related primarily to the following items: a larger number of EERBs than expected; higher average EERB awards than expected and an adjustment for pensions in pay to reflect increased inflation impact of CPI.

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

Year-to-date operating expenditures were \$29.8 million with a \$2.1 million favourable variance from the \$31.9 million year-to-date budget, excluding capital and projects. Including projects and capital, the total administrative variance was a favourable \$2.8 million on expenditures of \$32.6 million versus the \$35.4 million budget. Favourable variances primarily relate to salaries, projects, building operations, depreciation, services contracted, and communications, with smaller favourable variances in other programs.

## **Legislated Obligations**

Legislated Obligations expenditures were \$9.6 million with a \$0.6 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 \$15.4 million at June 30, 2022. This was an increase of \$7.4 million from June 30, 2021.

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

	<b>June 30 2022 (Unaudited) (\$000s)</b>	<b>June 30 2021 (Unaudited) (\$000s)</b>	<b>DECEMBER 31 2021 (Audited) (\$000s)</b>
<b>Assets</b>			
Cash & cash equivalents	\$ 15,401	\$ 7,977	\$ 3,565
Receivables	47,613	40,760	50,143
Investments	2,132,642	2,232,306	2,349,157
Property and equipment	4,241	4,854	4,138
Intangible assets	<u>24,969</u>	<u>27,072</u>	<u>25,315</u>
	<u>\$ 2,224,866</u>	<u>\$ 2,312,969</u>	<u>\$ 2,432,318</u>

**Liabilities and (Unfunded) Funded Position**

Payables, accruals & lease liabilities	\$ 123,028	\$ 48,355	\$ 58,947
Post employment benefits	27,348	35,931	26,635
Benefits liabilities	<u>2,278,185</u>	<u>2,123,085</u>	<u>2,200,265</u>
	2,428,561	2,207,371	2,285,847
Deferred Revenue	8,000	13,000	-
(Unfunded) Funded position	<u>(211,695)</u>	<u>92,598</u>	<u>146,471</u>
	<u>\$ 2,224,866</u>	<u>\$ 2,312,969</u>	<u>\$ 2,432,318</u>

**WCB NOVA SCOTIA  
STATEMENT OF OPERATIONS  
FOR THE SIX MONTHS ENDED JUNE 30  
(UNAUDITED)**

	SECOND QUARTER 2022 (\$000s)	SECOND QUARTER 2021 (\$000s)	YTD JUNE 30 2022 (\$000s)	YTD JUNE 30 2021 (\$000s)
<b>Revenue</b>				
Assessments	\$ 101,613	\$ 87,113	\$ 182,723	\$ 162,110
Investment (loss) income	(157,990)	92,993	(283,446)	92,937
	<u>(56,377)</u>	<u>180,106</u>	<u>(100,723)</u>	<u>255,047</u>
<b>Expenses</b>				
Claims costs incurred				
Short-term disability	16,047	15,364	30,010	29,026
Long-term disability	30,498	24,585	59,119	51,047
Survivor benefits	199	(25)	551	500
Health care	17,736	16,860	35,614	31,155
Rehabilitation	171	228	348	382
	<u>64,651</u>	<u>57,012</u>	<u>125,642</u>	<u>112,110</u>
Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease	54,048	38,269	91,887	72,482
Administration costs	14,911	15,759	29,775	30,025
System support	257	252	514	503
Legislated obligations	4,730	4,647	9,625	9,422
	<u>138,597</u>	<u>115,939</u>	<u>257,443</u>	<u>224,542</u>
Excess of (expenses over revenues) revenues over expenses applied to (decrease) increase the funded position	\$ <u>(194,974)</u>	\$ <u>64,167</u>	\$ <u>(358,166)</u>	\$ <u>30,505</u>

**WCB NOVA SCOTIA**  
**STATEMENT OF CHANGES IN THE (UNFUNDED) FUNDED POSITION**  
**FOR THE SIX MONTHS ENDED JUNE 30**  
**(UNAUDITED)**

	SECOND QUARTER 2022 (\$000s)	SECOND QUARTER 2021 (\$000s)	YTD JUNE 30 2022 (\$000s)	YTD JUNE 30 2021 (\$000s)
<b>(Unfunded) funded position excluding accumulated other comprehensive income</b>				
Balance, beginning of period	\$ (16,721)	\$ 28,431	\$ 146,474	\$ 72,516
Excess of (expenses over revenues) revenues over expenses applied to (decrease) increase the funded position	<u>(194,974)</u>	<u>64,167</u>	<u>(358,166)</u>	<u>30,505</u>
	<u>(211,695)</u>	<u>92,598</u>	<u>(211,692)</u>	<u>103,021</u>
<b>Accumulated other comprehensive income</b>				
Balance, beginning of Year	-	-	(3)	(10,423)
	<u>-</u>	<u>-</u>	<u>(3)</u>	<u>(10,423)</u>
<b>(UNFUNDED) FUNDED POSITION, END OF PERIOD</b>	<b>\$ <u>(211,695)</u></b>	<b>\$ <u>92,598</u></b>	<b>\$ <u>(211,695)</u></b>	<b>\$ <u>92,598</u></b>



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

	<b>JUNE 30 2022 (\$000's)</b>	<b>JUNE 30 2021 (\$000's)</b>
<b>Operating Activities</b>		
Cash received from:		
Employers, for assessments	\$ 187,534	\$ 174,337
Investment Income	7,165	11,516
	194,699	185,853
Cash paid to:		
Claimants or third parties on their behalf	(138,900)	(128,141)
Suppliers, for administrative and other goods and services	32,216	(35,331)
	(106,684)	(163,472)
<b>Net cash provided by operating activities</b>	<b>88,015</b>	<b>22,381</b>
<b>Investing Activities</b>		
Increase in investments, net	(74,120)	(11,137)
Cash paid for:		
Purchase of equipment and intangible assets	(2,059)	(527)
	(76,179)	(11,664)
<b>Net cash used in investing activities</b>	<b>(76,179)</b>	<b>(11,664)</b>
<b>Net increase in cash and cash equivalents</b>	<b>11,836</b>	<b>10,717</b>
Cash and cash equivalents, (bank indebtedness) beginning of year	3,565	(2,740)
<b>Cash and cash equivalents, end of period</b>	<b>\$ 15,401</b>	<b>\$ 7,977</b>

## **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 June 30, 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 a mid year valuation 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 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 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 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. 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.

