

# WCB Nova Scotia

## Summary of Financial Results

### Quarter Ended March 31, 2023

This is the first financial report under IFRS 17, Insurance Contracts. The report includes notes to the financial statements which details the new terminology. In summary, on a comparison basis to the previous standard IFRS 4, Insurance Contracts, the results are a lower funded ratio by 1.9 per cent.

#### **As per IFRS 17 Financial Statements:**

Year-to-date, revenues exceeded expenses for comprehensive income of \$10.4 million, increasing the funded ratio to 92.1 per cent compared to restated IFRS 17 basis of 91.5 per cent at December 31, 2022.

➤ The total comprehensive income is primarily due to:

- \$3.4 million of net insurance service income: comprised of premium revenue less claims costs incurred less unfavourable actuarial adjustments; and the portion of administration cost related to insurance contracts.
- \$60.5 million of Investment income: represents a 3.3 per cent return for the quarter.
- \$46.4 million Insurance finance expense: represents the growth in present value of opening liabilities, and the impact of a discount rate decrease which increased liabilities.
- \$7.1 million other non-direct insurance expenses.

#### **As per Funded Basis (Rate Setting):**

For rate setting purposes, the funded ratio will be based on IFRS 4 – where the liabilities will be based on a discount rate reflecting a long-term view of investment returns. The funded ratio per rate setting base is 94.0 per cent, compared to 92.9 per cent at December 31, 2022.

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 2023.

Prepared By: Financial Services

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## **SUMMARY OF FINANCIAL RESULTS FIRST QUARTER 2023**

### **New Accounting Policy Implementation January 1, 2023**

A new international accounting standard has been mandated which results in a change to the financial statements for insurance companies and all workers' compensation boards in Canada.

International Financial Reporting Standard (IFRS) 17 Insurance Contracts is effective January 1, 2023, replacing IFRS 4 Insurance Contracts. The retrospective application applied with the initial implementation of IFRS 17 results in restated 2022 comparative financial statements reflecting the new standard.

Though the economic fundamentals of workers' compensation boards are not changing, there will be changes to how insurance revenue and liabilities are recognized and presented in the financial statements. The new standard requires the use of a discount rates based on market-based information versus the long-term expected return on assets and is expected to produce more short-term volatility in the financial statements. However, the long-term expected return on asset rate will continue to be utilized for funding and setting premium rates.

### **Statement of Financial Position**

The 2022 comparative statements were restated to reflect IFRS 17. The retrospective application as of January 1, 2022, resulted in the funded position decreasing by \$380.1 million, from funded \$146.5 million to unfunded \$233.6 million. This is due to a lower discount rate under IFRS 17 of 3.2 per cent compared to an IFRS 4 rate of 5 per cent. The decreased discount rate increased the liability.

By the end of 2022, the current market rate prevailing discount rate under IFRS 17 of 5.3 per cent converged closer to the IFRS 4 rate of 5.5 per cent. Therefore at December 31, 2022 the unfunded liability under increased \$25.2 million to \$214.1 million and the resulting funding ratio decreased from 92.9 per cent to 91.5 per cent.

The WCB Nova Scotia's (WCB) asset base as at March 31, 2023 was \$2,362.5 million, an increase of \$25.0 million as compared to March 31, 2022. This was primarily due to an increase in investments, offset by an increase in the liabilities as a result of a decrease in the discount rate.

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, 2023 includes public equities at 30 per cent, fixed income at 20 per cent, hedge funds at 6 per cent, real estate at 13 per cent and alternative investments at 31 per cent. At any given time, the fund's asset allocation may differ from the benchmark.

Total liabilities at March 31, 2023 are \$2,566.2 million, primarily comprising Insurance contract liabilities of \$2,505.3 million, a decrease of \$49.3 million from March 31, 2022. This decrease was primarily due to the discount rate increasing from 4.2 per cent to 5.0 per cent. These liabilities have been estimated for the first three months of the year based on an extrapolation performed on data as of March 31, 2023 and projected forward for the remainder of the year. Insurance contract liabilities estimates could vary when the annual valuation is prepared by an independent actuarial consultant at year-end. When measuring liabilities for incurred claims, the discount will be updated on a quarterly basis.

For March 31, 2023, financial results show an unfunded position of \$203.7 million, an improvement of \$145.2 million from March 31, 2022.

### **Statement of Operations Under IFRS 17**

There was comprehensive income of \$10.4 million for the three months ended March 31, 2023, decreasing the unfunded position.

### **Insurance Service Result**

Insurance revenue is the amount of expected premium receipts and funds collected for rebate and refund programs, from the assessed employers. Insurance revenue year-to-date is \$91.4 million. Insured revenue increased \$12.3 million (15.6 per cent) versus the same period in 2022. The increase is primarily driven by payroll growth, and the 2022 comparator being impacted by timing and impact of COVID-19 on economic activity.

The total insurance service expenses were \$88.0 million. Insurance service expenses include claims costs incurred of \$64.3 million, a decrease of \$5.6 million (8.0 per cent) over the same period of 2022. These are estimated for the three months of the year based on an extrapolation of current and future years' costs and decrease is primarily due to an increase in the discount rate. Insurance service expenses also includes \$11.4 million for changes to actuarial assumptions, related primarily to a larger number of long term awards and higher average awards than expected, and \$12.3 million of administrative expenses that relate directly to the fulfilment of the insurance contract, administrative expenses are further explained below.

The Net Insurance Service Result, income for the period, was \$3.4 million.

### **Financing Result**

Investment income year-to-date is \$60.5 million. This reflects a year-to-date return of 3.3 per cent. The fund is diversified and positioned for long-term results.

The insurance finance expense was \$46.4 million, which is a result of the year-to-date net growth in the present value of the benefits liability, \$33.9 million, and a \$12.5 million due to a decrease in the market rate utilized to discount the contracts.

The Net Financing Result for the period was \$14.1 million in income, compared to a loss of \$94.6 million in the same period in 2022.

## **Other Revenue and Expenses**

Other Expenses were greater than other revenues by \$7.1 million. The breakdown of other revenue and expenses are discussed below.

Other revenue reflects Self-insured revenue year-to-date, \$2.0 million from administering self-insured claims.

Other administration expenses are the portion of administrative expenses that do not directly relate to administering insurance contracts, \$3.9 million. Administration expenses are discussed in further detail below.

Legislated Obligations expenditures were \$4.8 million with a \$0.6 million favourable variance from budget. Occupational Health and Safety, the Workers' Advisers program and the Workers' Compensation Appeals Tribunal all reported favourable variances.

System Support System Support expenditures were \$0.3 million.

## **Administrative Expenses**

Year-to-date operating expenditures were \$16.2 million (\$12.3 related to insurance contracts and \$3.9 million in other expenses) with a \$0.7 million favourable variance from the \$16.9 million year-to-date budget, excluding capital and projects. Including projects and capital, the total administrative variance was a favourable \$1.5 million on expenditures of \$17.6 million versus the \$19.1 million budget. Favourable variances primarily relate to salaries, projects, building operations, depreciation, and communications, with smaller favourable variances in other programs.

## **Statement of Cash Flow**

The Statement of Cash Flows demonstrates cash of \$21.3 million as at March 31, 2023. This was a decrease of \$55.1 million from March 31, 2022 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 took effect July 1, 2022.

**WCB NOVA SCOTIA  
STATEMENT OF FINANCIAL POSITION  
AS AT MARCH 31**

	<b>MARCH 31 2023 (Unaudited) (\$000s)</b>	<b>MARCH 31 2022 (Unaudited) (restated) (\$000s)</b>	<b>DECEMBER 31 2022 (Unaudited) (restated) (\$000s)</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 21,300	\$ 76,420	\$ 31,330
Other Receivables	12,966	8,349	8,796
Investments	2,299,490	2,223,521	2,239,651
Property & Equipment	3,737	4,283	3,946
Intangible Assets	<u>25,015</u>	<u>24,910</u>	<u>25,271</u>
	<u>\$ 2,362,508</u>	<u>\$ 2,337,483</u>	<u>\$ 2,308,994</u>
<b>LIABILITIES AND UNFUNDED LIABILITY</b>			
Other Payables and Accrued Liabilities	\$ 40,860	\$ 104,899	\$ 51,660
Post Employment Benefits	20,034	26,997	19,727
Insurance Contract Liabilities	<u>2,505,277</u>	<u>2,554,536</u>	<u>2,451,685</u>
	2,566,171	2,686,432	2,523,072
Unfunded position	<u>(203,663)</u>	<u>(348,949)</u>	<u>(214,078)</u>
	<u>\$ 2,362,508</u>	<u>\$ 2,337,483</u>	<u>\$ 2,308,994</u>

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

	<b>YTD MARCH 31 2023 (\$000s)</b>	<b>YTD MARCH 31 2022 (restated) (\$000s)</b>
Insurance revenue	\$ 91,463	\$ 79,154
Insurance service expenses		
Claims costs incurred	(64,340)	(69,959)
Assumptions change and actuarial experience adjustment	(11,396)	(9,249)
Onerous loss expense and reversals	-	(2,005)
Administration expense	(12,347)	(11,706)
Total insurance service expenses	<u>(88,083)</u>	<u>(92,919)</u>
<b>Net insurance service result income (loss)</b>	<b>3,380</b>	<b>(13,765)</b>
Investment income (loss)	60,496	(125,456)
Insurance finance (expense) income	<u>(46,410)</u>	<u>30,821</u>
<b>Net financing result income (loss)</b>	<b>14,086</b>	<b>(94,635)</b>
Other revenue and expenses		
Self-insured revenue	1,962	1,955
Other administration expense	(3,898)	(3,697)
System support	(279)	(257)
Legislated obligations	<u>(4,835)</u>	<u>(4,894)</u>
<b>Total other expenses greater than other revenues</b>	<b><u>(7,050)</u></b>	<b><u>(6,893)</u></b>
<b>Excess of revenues over expenses (expenses over revenues) applied to increase (decrease) the funded position</b>	<b>\$ <u>10,416</u></b>	<b>\$ <u>(115,293)</u></b>

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

	<b>YTD</b>	<b>YTD</b>
	<b>MARCH 31</b>	<b>MARCH 31</b>
	<b>2023</b>	<b>2022</b>
		<b>(restated)</b>
	<b>(\$000s)</b>	<b>(\$000s)</b>
<b>UNFUNDED LIABILITY</b>		
<b>Unfunded position excluding accumulated other comprehensive income</b>		
Balance, beginning of period	\$ (222,410)	\$ (233,653)
Excess of revenues over expenses (expenses over revenues) applied to increase (decrease) the funded position	10,415	(115,293)
	<u>(211,995)</u>	<u>(348,946)</u>
<b>Accumulated other comprehensive income</b>		
Balance, beginning of Year	8,332	(3)
	<u>8,332</u>	<u>(3)</u>
<b>UNFUNDED POSITION, END OF PERIOD</b>	<b>\$ <u>(203,663)</u></b>	<b>\$ <u>(348,949)</u></b>



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

	<b>MARCH 31 2023 (\$000's)</b>	<b>MARCH 31 2022 (\$000's)</b>
<b>Operating Activities</b>		
Cash received from:		
Employers, for assessments and self-insured administration fees	\$ 94,823	\$ 93,802
Other contribution - Prov of NS	1,093	-
Investment (loss) income	(7,616)	6,264
	88,300	100,066
Cash paid to:		
Claimants or third parties on their behalf	(74,627)	(68,288)
Suppliers, for administrative and other goods and services	(31,027)	48,087
	(105,654)	(20,201)
<b>Net cash (used in) provided by operating activities</b>	<b>(17,354)</b>	<b>79,865</b>
<b>Investing Activities</b>		
Decrease (increase) in investments	8,065	(73,478)
Cash paid for:		
Purchase of equipment and intangible assets	(740)	(909)
Contribution from Province Of Nova Scotia	-	67,377
	7,325	(7,010)
<b>Net cash provided by (used in) investing activities</b>	<b>7,325</b>	<b>(7,010)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(10,030)</b>	<b>72,855</b>
Cash and cash equivalents, beginning of year	31,330	3,565
<b>Cash and cash equivalents, end of period</b>	<b>\$ 21,300</b>	<b>\$ 76,420</b>

## Notes to Financial Statements

### 1. Basis of Presentation of Interim Financial Statements

The IFRS 17 – Insurance Contracts standard is effective January 1, 2023, replacing IFRS 4 Insurance Contracts. It introduces new recognition and measurement approaches for insurance revenue and liabilities and includes the move to market-based interest rates used to discount the future cash flows of the benefits liabilities.

For the Summary of Financial Results, the WCB has restated comparative information for 2022 and will apply the transitional provisions to IFRS 17 in the 2023 financial statements.

Unaudited Interim financial statements present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies as at March 31, 2023, including 2022 comparative figures.

The interim financial statements are prepared on a basis consistent with annual financial statements with the exception of Insurance service expense and Insurance finance income or expenses. These figures were determined by an extrapolation of current and future years' claims costs. Insurance Contracts 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

Other Receivables include self-insured employers' receipts, net of self-insured deposits, as well as receivables not directly related to fulfillment of the insurance contract.

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.

Insurance Contracts Liabilities represent an estimate based on projections of claims costs incurred, actuarial experience adjustments, and changes in present value of the Benefits Liabilities, as well as Receivables, and Payables and accruals, related to the insurance contract fulfillment. Benefits Liability projections are determined by estimation and the yearend valuation for purposes of interim financial statements.

Other payables and accruals are those not related to insurance contract fulfillment. Commonly included in other payables are legislated obligations, staff benefits and salary,

as well as a portion of general payables not allocated to insurance contract fulfillment.

### **3. Statement of Operations**

#### **Insurance revenue**

The insurance revenue for the period is the amount of expected premium receipts from the assessed employers allocated to the period. The WCB allocates the expected premium receipts to each period of insurance contract services based on the passage of time. Premiums are billed when employers report their employees' insurable earnings for an applicable assessment year. For employers who have not reported, premiums are estimated based on historical experience and any difference between actual and estimated premiums is adjusted in the following year. As a significant portion of premium income for the year is not received until after year end, the amount recorded is a combination of actual and estimate based on statistical data. The difference between the estimate and the actual income received is adjusted to income in the following year. Historically, the difference has not been material.

Insurance revenue may include contributions from the Province of Nova Scotia that are directly related to insurance contract fulfillment.

Self-insured revenue is not considered insurance revenue and is reported separately under other revenues and expenses.

#### **Insurance service expenses**

Represent an estimate based on projections of claims costs incurred, actuarial experience adjustments, and changes in present value of the benefits liabilities, as well as receivables, and payables and accruals, related to the insurance policies. Insurance contract liability projections are determined by estimation and actuarial valuations for purposes of interim financial statements.

Claims costs incurred and actuarial experience adjustments and are estimates for short-term disability, health care, rehabilitation, long-term disability, and survivor benefits. Assumptions change and actuarial experience adjustments: comprise changes in what was predicted based on the actuarial assumptions and methods used in the prior valuation and what is expected to occur in the current year based on new information.

**Insurance service result** is the net of insurance revenue and insurance expenses.

#### **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 the fair value of an

investment. Investment income is presented as net of investment expenses.

## **Financing result**

Investment income or loss, less insurance finance income / expense (growth in present value of benefits liabilities and the impact of quarterly discount rate changes)

### **4. Cash Flow Statement**

This statement summarizes cash receipts and disbursements from all sources.

### **5. Administration Expenses**

A portion of the Board's administrative expenses are allocated to the fulfillment of the insurance contract. This figure is presented under Insurance service expenses.

The remaining administrative expenses are presented under Other revenues and expenses.

## **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 worker's 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.