

## Workers' Compensation Board of Nova Scotia Summary of Financial Results

- *Year-to-date expenses exceeded revenues for a total comprehensive loss of \$15.2 million, increasing the unfunded liability and resulting in a funded ratio of 76.4% year to date September 30, 2015.*
  - *A variance from the funding strategy expectation of \$41.4 million for the year.*
  - *The third quarter resulted in a decline in total comprehensive income by \$59.6 million, compared to Q2 results – primarily due to declines in investment markets – with investments declining 3.6% during the quarter. YTD return of 1.5% was ahead of benchmark return of 0.9%.*
  
- *The forecast is for comprehensive income to be in-line with the funding strategy by year end with two caveats:*
  - *With favourable actuarial experience adjustments to come in-line with the funding strategy.*
  - *YTD estimated investment return of 4.6% with the funding strategy requiring 6.0%.*

**Prepared By: Financial Services**

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

### **Statement of Financial Position**

The Workers' Compensation Board of Nova Scotia's (WCB) asset base at September 30, 2015 was \$1,523.4 million, an increase of \$36.1 million as compared to September 30, 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 September 30, 2015 includes equity at 60%, fixed income at 30% and real estate at 10%.

Benefits liabilities of \$1,922.2 million increased \$7.7 million from September 30, 2014 to September 30, 2015. These liabilities have been estimated based on an extrapolation of year to date claims payments for current and prior years and the midyear valuation performed at June 30. 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 a Comprehensive Loss of \$15.2 million for the nine months ended September 30, 2015, applied as an increase to the unfunded liability. The current funding strategy, approved in June 2015, anticipates comprehensive income for 2015 of \$41.4 million. The year to date comprehensive loss is primarily driven by lower investment returns partially offset by favourable actuarial experience adjustments. The impact on the funding strategy will be measured as the variance of the 2015 comprehensive income or loss to the funding strategy estimate.

### **Revenue**

Assessment revenue year to date is \$223.0 million composed of insured firms' revenue of \$193.4 million and self-insured revenue of \$29.6 million. Revenue increased \$6.9 million (3.2%) versus the same period in 2014 and reflects increases related to: insured firms' assessment premium revenue of \$5.7 million and self-insured revenue of \$1.2 million over the same period in 2014. Insured firms' revenue is net of funds collected for rebate and refund programs of \$3.2 million.

Investment income year to date is \$19.9 million, a decrease of \$88.7 million over the same period in 2014. Investment income is the result of interest and dividends of \$18.0 million, realized gains of \$245.1 million primarily as a result of the transition of the portfolio to Mercer Global Investments Canada Limited as our manager of investment managers, unrealized losses of \$201.8 million (primarily due to market volatility in the

second and third quarters of 2015), realized currency overlay losses of \$22.8 million and unrealized currency overlay losses of \$15.8 million (due to depreciation of the Canadian dollar against other currencies) less \$2.8 million in management fees. The nine month return was 1.5% exceeding the benchmark return of 0.9%. The third quarter portfolio return was negative 3.6 per cent reflecting the continued to decline in the investment markets. 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 \$155.0 million are an increase of \$0.2 million (0.1%) 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 midyear valuation performed at June 30.

The year to date net growth in the present value of the benefits liability and actuarial experience adjustments was \$55.7 million. The growth component was \$82.8 million and is offset by the estimated favourable actuarial experience adjustments of \$27.1 million (approximately \$36 million for the year). 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 \$30.0 million.

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

Year to date administrative expenditures were \$38.3 million.

### **Legislated Obligations**

Legislated Obligations expenditures were \$11.2 million.

### **Statement of Cash Flow**

The Statement of Cash Flows demonstrates the use of cash for the year to date on a comparative basis. Cash was \$3.7 million at September 30, 2015, a decrease of \$5.7 million from the September 30, 2014 cash position.

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

	<b>SEPTEMBER 30 2015 (Unaudited) (\$000s)</b>	<b>SEPTEMBER 30 2014 (Unaudited) (\$000s)</b>	<b>DECEMBER 31 2014 (Audited) (\$000s)</b>
<b>Assets</b>			
Cash & cash equivalents	\$ 3,748	\$ 9,401	\$ 3,804
Receivables	18,197	22,507	25,378
Investments	1,496,495	1,450,244	1,476,748
Property and equipment	4,208	4,325	4,402
Intangible assets	<u>786</u>	<u>822</u>	<u>917</u>
	<u>\$ 1,523,434</u>	<u>\$ 1,487,299</u>	<u>\$ 1,511,249</u>
<b>Liabilities and Unfunded Liability</b>			
Payables and accruals	\$ 32,062	\$ 31,311	\$ 33,801
Lease liabilities	106	192	171
Post employment benefits	29,847	23,852	28,158
Benefits liabilities	<u>1,922,219</u>	<u>1,914,550</u>	<u>1,903,556</u>
	1,984,234	1,969,905	1,965,686
Deferred revenue	8,817	16,679	
Unfunded liability	<u>(469,617)</u>	<u>(499,285)</u>	<u>(454,437)</u>
	<u>\$ 1,523,434</u>	<u>\$ 1,487,299</u>	<u>\$ 1,511,249</u>

**WORKERS' COMPENSATION BOARD OF NOVA SCOTIA**  
**STATEMENT OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30**  
**(UNAUDITED)**

	THIRD QUARTER 2015 (\$000s)	THIRD QUARTER 2014 (\$000s)	YTD SEPTEMBER 30 2015 (\$000s)	YTD SEPTEMBER 30 2014 (\$000s)
<b>Revenue</b>				
Assessments	\$ 75,888	\$ 71,665	\$ 223,020	\$ 216,073
Investment income	<u>(56,595)</u>	<u>9,566</u>	<u>19,925</u>	<u>108,665</u>
	<u>19,293</u>	<u>81,231</u>	<u>242,945</u>	<u>324,738</u>
<b>Expenses</b>				
Claims costs incurred				
Short-term disability	10,648	10,252	31,262	29,635
Long-term disability	25,169	24,557	76,399	76,011
Survivor benefits	1,948	3,043	4,120	5,333
Health care	14,080	14,852	42,415	42,617
Rehabilitation	<u>267</u>	<u>671</u>	<u>756</u>	<u>1,138</u>
	52,112	53,375	154,952	154,734
Growth in present value of benefits liabilities and actuarial adjustments	11,059	28,634	55,656	70,090
Administration costs	11,764	12,253	35,617	35,082
System support	211	228	658	709
Legislated obligations	<u>3,769</u>	<u>3,588</u>	<u>11,242</u>	<u>11,179</u>
	78,915	98,078	258,125	271,794
<b>Excess of (expenses over revenues) revenues over expenses applied to (increase) reduce the unfunded liability</b>	<u>\$ (59,622)</u>	<u>\$ (16,847)</u>	<u>\$ (15,180)</u>	<u>\$ 52,944</u>

**WORKERS' COMPENSATION BOARD OF NOVA SCOTIA**  
**STATEMENT OF CHANGES IN UNFUNDED LIABILITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30**  
**(UNAUDITED)**

	THIRD QUARTER 2015 (\$000s)	THIRD QUARTER 2014 (\$000s)	YTD SEPTEMBER 30 2015 (\$000s)	YTD SEPTEMBER 30 2014 (\$000s)
<b>Unfunded liability excluding accumulated other comprehensive income</b>				
Balance, beginning of period	\$ (409,995)	\$ (482,438)	\$ (444,927)	\$ (546,488)
Excess of (expenses over revenues) revenues over expenses	<u>(59,622)</u>	<u>(16,847)</u>	<u>(15,180)</u>	<u>52,944</u>
	<u>(469,617)</u>	<u>(499,285)</u>	<u>(460,107)</u>	<u>(493,544)</u>
<b>Accumulated other comprehensive income</b>				
No change in balance during the period	<u>-</u>	<u>-</u>	<u>(9,510)</u>	<u>(5,741)</u>
<b>Unfunded liability end of period</b>	<b><u>\$ (469,617)</u></b>	<b><u>\$ (499,285)</u></b>	<b><u>\$ (469,617)</u></b>	<b><u>\$ (499,285)</u></b>

**WORKERS' COMPENSATION BOARD OF NOVA SCOTIA**  
**STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30**  
**(UNAUDITED)**

	September 30 2015 (\$000's)	September 30 2014 (\$000's)
<b>Operating Activities</b>		
Cash received from:		
Employers, for assessments	\$ 237,236	\$ 225,159
Investment income	<u>237,590</u>	<u>49,112</u>
	474,826	274,271
Cash paid to:		
Claimants or third parties on their behalf	(187,400)	(182,142)
Suppliers, for administrative and other goods and services	<u>(49,478)</u>	<u>(45,202)</u>
	(236,878)	(227,344)
<b>Net cash provided by operating activities</b>	<u>237,948</u>	<u>46,927</u>
<b>Investing Activities</b>		
Increase in investments	(237,410)	(43,006)
Cash paid for:		
Purchase of equipment	<u>(594)</u>	<u>(879)</u>
<b>Net cash used in investing activities</b>	<u>(238,004)</u>	<u>(43,885)</u>
<b>Financing Activities</b>		
Change in bank indebtedness	<u>-</u>	<u>-</u>
<b>Net cash provided by financing activities</b>	<u>-</u>	<u>-</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>(56)</u>	<u>3,042</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>\$ 3,748</u>	<u>\$ 9,402</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 September 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 a midyear valuation performed at June 30. 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 midyear 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 for purposes of the midyear 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.