

WCB Nova Scotia

Summary of Financial Results

Third Quarter 2021

Year-to-date results as of September 30th

Year-to-date, revenues exceeded expenses for a comprehensive income of \$5.9 million, increasing the funded position. The funded ratio is currently 103.0 per cent compared to 102.9 per cent at December 31, 2020.

- The comprehensive income is primarily related to the following:
 - Investment income is slightly ahead of the plan year-to-date.
 - Claims cost incurred increased in short-term disability (STD), long-term disability (LTD), survivor and healthcare (HC) over the prior YTD, up 10.9 per cent, more than what was estimated in the plan.
 - Third Quarter extrapolation forecasts a net unfavourable experience adjustment from STD and LTD with a favourable adjustment for Health Care and Rehabilitation. The unfavourable experience adjustments are due to a larger number of EERBs and PIBs than expected and higher average EERB awards than expected. The increase in average awards is primarily due to increased wages and a slight decrease in the average age of recipient. For STD, the higher than expected STD payments are due to an increase in claim volumes as the economy opens up and some unfavourable experience expected from traumatic psychological injury claims, particularly for durations. This is behind the plan.
- The WCB's financial performance for 2021 will be measured against the current approved funding strategy for 2021 and anticipates comprehensive income of \$4.5 million for the year with a forecasted funded ratio of 103.0 per cent.
- 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 three months of 2021.

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SUMMARY OF FINANCIAL RESULTS THIRD QUARTER 2021

Statement of Financial Position

The WCB of Nova Scotia's (WCB) asset base at September 30, 2021 was \$2,335.7 million, an increase of \$232.6 million as compared to September 30, 2020. This was primarily due to increases in the market value of investments compared to the first three quarters of 2020 when investment markets experienced declines from the COVID-19 pandemic.

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 September 30, 2021 includes public equities at 42 per cent, fixed income at 27 per cent, hedge funds at 9 per cent, real estate at 9 per cent and alternative investments at 13 per cent. At any given time, the fund's asset allocation may differ from the benchmark.

Benefits liabilities of \$2,162.6 million at September 30, 2021 increased \$65.3 million from September 30, 2020. These liabilities have been estimated for the first nine months of the year based on an extrapolation performed on data as of September 30, 2021 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.

The funded position is \$68.0 million as of September 30, 2021. This is a \$167.6 million improvement from the unfunded liability position as at September 30, 2020.

Statement of Operations

There was a comprehensive income of \$5.9 million for the nine months ended September 30, 2021, resulting in an increase in the funded position from year-end. The current funding strategy, approved in June 2021 forecasts a comprehensive income of \$4.5 million based on the information available at that time. The impact on the funding strategy will be measured as the variance of the 2021 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 three 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 2020 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 reported income.

Revenue

Assessment revenue year-to-date is \$248.5 million comprised of insured firms' revenue of \$242.7 million and \$5.8 million from administering self-insured claims. Insured revenue increased \$18.9 million (8.5 per cent) versus the same period in 2020. This increase is impacted by 2020 revenue, as this was lower than typical revenue patterns due to the pandemic and business interruptions. When compared to the same period in 2019, revenue in 2021 is up 6 per cent, which would be in line with expectations over a two year period. Insured firms' revenue also includes funds collected for rebate and refund programs.

Investment income year-to-date is \$109.2 million, reflecting a year-to-date return of 5.6 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 \$170.8 million are an increase of \$16.8 million (10.9 per cent) over the same period of 2020 and are estimated for the nine months of the year based on an extrapolation of current and future years' costs. Claims costs were down at the comparable time in 2020 due to pandemic impacts on business.

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was \$121.1 million. The growth component was \$84.5 million combined with estimated net unfavourable experience adjustments of \$36.6 million. This unfavourable adjustment related primarily to STD and LTD benefits with higher than expected claim payments in 2021.

Administrative Expenditures (Operating, Projects Expense, and Capital)

Year-to-date operating expenditures were \$43.0 million with a \$2.7 million favourable variance from the \$45.7 million year-to-date budget, excluding capital and projects. Including projects and capital, the total administrative variance was a favourable \$4.0 million on expenditures of \$47.3 million versus the \$51.3 million budget. Favourable variances primarily relate to capital, professional fees, and projects, with smaller favourable variances in other programs.

Legislated Obligations

Legislated Obligations expenditures were \$13.9 million with a \$0.7 million favourable variance from budget. This was spread between an unfavourable variance in Occupational Health and Safety and favourable variances in the Workers' Compensation Appeals Tribunal and Workers Advisors Program.

Statement of Cash Flow

The Statement of Cash Flows demonstrates cash of \$11.6 million at September 30, 2021. This was an increase of \$8.1 million from September 30, 2020.

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

	SEPTEMBER 30 2021 (Unaudited) (\$000s)	SEPTEMBER 30 2020 (Unaudited) (\$000s)	DECEMBER 31 2020 (Audited) (\$000s)
Assets			
Cash & cash equivalents	\$ 11,592	\$ 3,537	\$ -
Receivables	44,953	56,874	36,369
Investments	2,248,570	2,007,357	2,139,748
Property and equipment	4,472	5,835	5,613
Intangible assets	<u>26,089</u>	<u>29,458</u>	<u>28,632</u>
	<u>\$ 2,335,676</u>	<u>\$ 2,103,061</u>	<u>\$ 2,210,362</u>

Liabilities and Funded (Unfunded) Position

Bank indebtedness	\$ -	\$ -	\$ 2,740
Payables, accruals & lease liabilities	52,603	59,546	43,170
Post employment benefits	36,527	31,127	34,840
Benefits liabilities	<u>2,162,628</u>	<u>2,097,303</u>	<u>2,067,519</u>
	2,251,758	2,187,976	2,148,269
Deferred Revenue	15,900	14,650	-
Funded (unfunded) position	<u>68,018</u>	<u>(99,565)</u>	<u>62,093</u>
	<u>\$ 2,335,676</u>	<u>\$ 2,103,061</u>	<u>\$ 2,210,362</u>

**WCB NOVA SCOTIA
STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(UNAUDITED)**

	THIRD QUARTER 2021 (\$000s)	THIRD QUARTER 2020 (\$000s)	YTD SEPTEMBER 30 2021 (\$000s)	YTD SEPTEMBER 30 2020 (\$000s)
Revenue				
Assessments	\$ 86,414	\$ 87,531	\$ 248,525	\$ 229,859
Investment income	<u>16,312</u>	<u>56,231</u>	<u>109,248</u>	<u>50,699</u>
	<u>102,726</u>	<u>143,762</u>	<u>357,773</u>	<u>280,558</u>
Expenses				
Claims costs incurred				
Short-term disability	13,509	15,160	42,535	38,738
Long-term disability	28,339	23,732	79,387	71,941
Survivor benefits	1,074	279	1,574	971
Health care	15,517	13,559	46,672	41,450
Rehabilitation	<u>240</u>	<u>477</u>	<u>622</u>	<u>893</u>
	58,679	53,207	170,790	153,993
Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease	48,664	29,359	121,146	94,826
Administration costs	15,205	15,027	45,230	44,048
System support	252	264	755	763
Legislated obligations	<u>4,506</u>	<u>3,728</u>	<u>13,927</u>	<u>12,329</u>
	<u>127,306</u>	<u>101,585</u>	<u>351,848</u>	<u>305,959</u>
Excess of (expenses over revenues) revenues over expenses applied to (decrease) increase the funded position	\$ <u>(24,580)</u>	\$ <u>42,177</u>	\$ <u>5,925</u>	\$ <u>(25,401)</u>

WCB NOVA SCOTIA
STATEMENT OF CHANGES IN THE FUNDED (UNFUNDED) POSITION
FOR THE NINE MONTHS ENDED SEPTEMBER 30
(UNAUDITED)

	THIRD QUARTER 2021 (\$000s)	THIRD QUARTER 2020 (\$000s)	YTD SEPTEMBER 30 2021 (\$000s)	YTD SEPTEMBER 30 2020 (\$000s)
Funded (Unfunded) position excluding accumulated other comprehensive income				
Balance, beginning of period	\$ 92,598	\$ (141,742)	\$ 72,516	\$ (66,962)
Excess of (expenses over revenues) revenues over expenses applied to (decrease) increase the funded position	<u>(24,580)</u>	<u>42,177</u>	<u>5,925</u>	<u>(25,401)</u>
	<u>68,018</u>	<u>(99,565)</u>	<u>78,441</u>	<u>(92,363)</u>
Accumulated other comprehensive income				
Balance, beginning of Year	-	-	(10,423)	(7,202)
	<u>-</u>	<u>-</u>	<u>(10,423)</u>	<u>(7,202)</u>
FUNDED POSITION, END OF PERIOD	<u>\$ 68,018</u>	<u>\$ (99,565)</u>	<u>\$ 68,018</u>	<u>\$ (99,565)</u>

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

	SEPTEMBER 30 2021 (\$000's)	SEPTEMBER 30 2020 (\$000's)
Operating Activities		
Cash received from:		
Employers, for assessments	\$ 262,232	\$ 225,785
Investment Income (loss)	<u>17,481</u>	<u>(3,850)</u>
	279,713	221,935
 Cash paid to:		
Claimants or third parties on their behalf	(195,561)	(189,863)
Suppliers, for administrative and other goods and services	<u>(52,123)</u>	<u>(42,882)</u>
	(247,684)	(232,745)
 Net cash provided by (used in) operating activities	 <u>32,029</u>	 <u>(10,810)</u>
Investing Activities		
(Decrease) increase in investments, net	(17,059)	4,500
Cash paid for:		
Purchase of equipment and intangible assets	<u>(638)</u>	<u>(1,235)</u>
 Net cash (used in) provided by investing activities	 <u>(17,697)</u>	 <u>3,265</u>
 Net increase (decrease) in cash and cash equivalents	 <u>14,332</u>	 <u>(7,545)</u>
(Bank indebtedness), cash and cash equivalents, beginning of year	<u>(2,740)</u>	<u>11,082</u>
 Cash and cash equivalents, end of period	 <u>\$ 11,592</u>	 <u>\$ 3,537</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, 2020) and present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies as at September 30, 2021, including 2020 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.

