

WCB Nova Scotia Summary of Financial Results First Quarter 2020

Year-to-date results as of March 31st

Expenses exceeded revenues for a comprehensive loss of \$183.9 million, increasing the unfunded liability. The funded ratio is currently 87.9 per cent compared to 96.5 per cent at December 31, 2019.

- Primarily due to investment losses – negative market returns in the first three months with a return of -7.9% resulting in an investment loss of \$167.7 million.
- The current approved funding strategy of June 2019 included an expectation of comprehensive income of \$62.9 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.

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SUMMARY OF FINANCIAL RESULTS FIRST QUARTER 2020

Statement of Financial Position

WCB Nova Scotia's (WCB) asset base at March 31, 2020 was \$1,881.4 million, a decrease of \$35.1 million as compared to March 31, 2019. This was primarily due to decreases in the market value of investments due to sharp declines in investment markets due to pandemic impacts.

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, 2020 includes public equity at 43.1 per cent, fixed income at 32.0 per cent, hedge funds at 9.0 per cent, real estate at 10.0 per cent and alternative investments at 5.9 per cent. At any given time, the fund's asset allocation may differ from the benchmark.

Benefits liabilities of \$2,049.4 million at March 31, 2020 decreased \$8.8 million from March 31, 2019. These liabilities have been estimated for the three months of the year based on an extrapolation of the WCB's 2020 funding strategy performed on data as of March 31, 2020 and projected forward for the remainder of the year. Benefits liabilities estimates could vary significantly when the annual valuation is prepared by an independent actuarial consultant at year end.

The unfunded liability of \$266.0 million increased \$60.9 million from March 31, 2019.

Statement of Operations

There was a comprehensive loss of \$183.9 million for the three months ended March 31, 2020, resulting in an increase to the unfunded liability. The current funding strategy, approved in June 2019 and anticipates comprehensive income of \$62.9 million. The year-to-date comprehensive loss is tracking significantly behind the plan at this point, primarily driven by negative investment returns relating to a global pandemic. The impact on the funding strategy will be measured as the variance of the 2020 comprehensive income (loss) to the funding strategy estimate. 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.

As the date when the unfunded liability will be eliminated approaches, the sensitivity to changes increases with any negative impacts representing a challenge as there will be limited market cycles over which to recover. The implementation of IFRS 17– Insurance Contracts in is scheduled for 2023. This standard will have material impacts for the WCB's financial reporting. 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. This standard will introduce significant volatility to the funded ratio and the elimination of the unfunded liability.

Revenue

Assessment revenue year-to-date is \$74.7 million composed of insured firms' revenue of \$72.9 million and \$1.8 million from administering self-insured claims. Assessment revenue decreased \$1.6 million (2.0 per cent) versus the same period in 2019. Insured firms' revenue also includes funds collected for rebate and refund programs.

Investment loss year-to-date is \$167.7 million, a decrease of \$284.4 million over the same period in 2019. The year-to-date return was -7.9 per cent, as compared to the benchmark return of -8.5 per cent. The benchmark is useful for assessing performance of the fund over the longer term. 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 \$51.7 million are a decrease of \$0.3 million (0.6 per cent) over the same period of 2019 and are estimated for the first three months of the year based on an extrapolation of the funding strategy for current and future years' costs.

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was \$20.0 million. The growth component was \$25.3 million, offset by estimated favourable actuarial experience adjustments of \$5.3 million. Favourable actuarial experience adjustments are currently projected in Long Term Disability and Health Care.

Administrative Expenditures (Operating, Projects, and Capital)

Year-to-date operating expenditures were \$13.5 million with a \$0.8 million favourable variance from the \$14.3 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 \$15.4 million. Favourable operating variances primarily relate to services contracted, salary, capital, and depreciation and smaller variances in other areas. Variances are expected to be utilized by year end.

Legislated Obligations

Legislated Obligations expenditures were \$4.6 million with a \$0.1 million favourable variance from budget. The Workers Advisors Program variance was favourable offset by small unfavourable variances in Occupational Health & Safety and the Workers

Compensation Appeals Tribunal.

Statement of Cash Flow

The Statement of Cash Flows demonstrates cash of \$19.9 million at March 31, 2020. This was an increase of \$21.3 million from March 31, 2019.

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

| | MARCH 31 2020 (Unaudited) (\$000s) | MARCH 31 2019 (Unaudited) (\$000s) | DECEMBER 31 2019 (Audited) (\$000s) |
|---|---|---|--|
| Assets | | | |
| Cash & cash equivalents | \$ 19,861 | \$ - | \$ 11,082 |
| Receivables | 34,633 | 29,998 | 39,816 |
| Investments | 1,789,415 | 1,849,116 | 1,957,305 |
| Property and equipment | 6,226 | 6,635 | 6,493 |
| Intangible assets | <u>31,219</u> | <u>30,719</u> | <u>32,126</u> |
| | <u>\$ 1,881,354</u> | <u>\$ 1,916,468</u> | <u>\$ 2,046,822</u> |
| Liabilities and Unfunded Liability | | | |
| Bank Indebtedness | \$ - | \$ 1,456 | \$ - |
| Payables, accruals & lease liabilities | 54,034 | 33,117 | 51,019 |
| Post employment benefits | 30,017 | 23,754 | 29,552 |
| Benefits liabilities | <u>2,049,412</u> | <u>2,058,211</u> | <u>2,040,415</u> |
| | 2,133,463 | 2,116,538 | 2,120,986 |
| Deferred revenue | 6,000 | 5,000 | - |
| Unfunded liability | <u>(258,109)</u> | <u>(205,070)</u> | <u>(74,164)</u> |
| | <u>\$ 1,881,354</u> | <u>\$ 1,916,468</u> | <u>\$ 2,046,822</u> |

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

| | YTD MARCH 31 2020 (\$000s) | YTD MARCH 31 2019 (\$000s) |
|--|-------------------------------------|-------------------------------------|
| Revenue | | |
| Assessments | \$ 74,718 | \$ 76,276 |
| Investment income | <u>(167,651)</u> | <u>116,739</u> |
| | <u>(92,933)</u> | <u>193,015</u> |
| Expenses | | |
| Claims costs incurred | | |
| Short-term disability | 12,184 | 11,011 |
| Long-term disability | 23,548 | 26,521 |
| Survivor benefits | 685 | 658 |
| Health care | 15,036 | 13,578 |
| Rehabilitation | <u>209</u> | <u>193</u> |
| | 51,662 | 51,961 |
| Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease | 20,038 | 23,807 |
| Administration costs | 14,478 | 13,870 |
| System support | 250 | 245 |
| Legislated obligations | <u>4,584</u> | <u>4,411</u> |
| | <u>91,012</u> | <u>94,294</u> |
| Excess of (expenses over revenues), revenues over expenses applied to (increase) reduce the unfunded liability | \$ <u>(183,945)</u> | \$ <u>98,721</u> |

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

| | YTD | YTD |
|--|-----------------------------|-----------------------------|
| | MARCH 31 | MARCH 31 |
| | 2020 | 2019 |
| | (\$000s) | (\$000s) |
| <hr/> | | |
| Unfunded liability excluding accumulated other comprehensive income | | |
| Balance, beginning of period | \$ (66,962) | \$ (301,084) |
| Excess of (expenses over revenues), revenues over expenses applied to (increase) reduce the unfunded liability | <u>(183,945)</u> | <u>98,721</u> |
| | <u>(250,907)</u> | <u>(202,363)</u> |
| Accumulated other comprehensive income | | |
| Balance, beginning of Year | (7,202) | (2,707) |
| No change in balance during period | <u> </u> | <u> </u> |
| | <u>(7,202)</u> | <u>(2,707)</u> |
| Unfunded liability end of period | \$ <u>(258,109)</u> | \$ <u>(205,070)</u> |

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

| | March 31 2020 (\$000's) | March 31 2019 (\$000's) |
|--|--|--|
| Operating Activities | | |
| Cash received from: | | |
| Employers, for assessments | \$ 84,664 | \$ 81,247 |
| Investment income | <u>(1,827)</u> | <u>(1,407)</u> |
| | 82,837 | 79,840 |
| Cash paid to: | | |
| Claimants or third parties on their behalf | (62,121) | (59,508) |
| Suppliers, for administrative and other goods and services | <u>(13,644)</u> | <u>(12,969)</u> |
| | (75,765) | (72,477) |
| Net cash provided by operating activities | <u>7,072</u> | <u>7,363</u> |
| Investing Activities | | |
| Increase in investments | 2,052 | 1,535 |
| Cash paid for: | | |
| Purchase of equipment and intangible assets | <u>(345)</u> | <u>(1,662)</u> |
| Net cash provided by (used in) investing activities | <u>1,707</u> | <u>(127)</u> |
| Net increase in cash and cash equivalents | <u>8,779</u> | <u>7,236</u> |
| Cash and cash equivalents, (bank indebtedness), beginning of year | <u>11,082</u> | <u>(8,692)</u> |
| Cash and cash equivalents (bank indebtedness) end of period | <u>\$ 19,861</u> | <u>\$ (1,456)</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, 2019) and present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies as at March 31, 2020, including 2019 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 the WCB's funding strategy for 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 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 an 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 the WCB funding strategy 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).