

WCB Nova Scotia

Summary of Financial Results

Second Quarter 2020

Year-to-date results as of June 30th

Year to date, expenses exceeded revenues for a comprehensive loss of \$67.6 million, increasing the unfunded liability. The funded ratio is currently 93.5 per cent compared to 96.5 per cent at December 31, 2019.

- The loss is primarily driven by the COVID-19 pandemic which has introduced volatility to revenue from insured employers and investment income. Year-to-date there was a 9 per cent reduction in insured revenue from the prior year. The second quarter investment returns rebounded after the massive selloff at the end of the first quarter, resulting in a year to date investment loss of \$5.5 million. A caution that volatility is expected to continue.
- Claim volumes decreased during the second quarter due to widespread economic shutdowns to combat the spread of the virus; with volumes increasing in June as the economy began to open in June.
- The WCB's operational and financial performance for the second half of 2020 will be tied to the future developments with the pandemic. The current approved funding strategy of June 2020 included an expectation of comprehensive loss of \$284 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 2020.

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SUMMARY OF FINANCIAL RESULTS SECOND QUARTER 2020

On 11 March 2020, the World Health Organisation (WHO) officially declared COVID-19, a pandemic. The pandemic which has introduced volatility to revenue from insured employers and investment income. Claim volumes decreased during the second quarter due to widespread economic shutdowns to combat the spread of the virus; with an increase in volumes as the economy began to open in June. It is anticipated that the operational and financial performance for the second half of 2020 will be tied to the future developments with the pandemic.

Statement of Financial Position

WCB Nova Scotia's (WCB) asset base at June 30, 2020 was \$2,034.3 million, an increase of \$65.4 million as compared to June 30, 2019. This was primarily due to increases 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 a diversified investment portfolio to secure the payment of benefits in the future. The WCB benchmark investment portfolio asset mix as at June 30, 2020 includes public equity at 43 per cent, fixed income at 32 per cent, hedge funds at 9 per cent, and real estate at 10 per cent and alternative investments at 6 per cent. At any given time, the fund's asset allocation may differ from the benchmark.

Benefits liabilities of \$2,078.8 million at June 30, 2020 increased \$10.2 million from June 30, 2019. These liabilities have been estimated for the first six months of the year based on a mid-year valuation performed on data as of June 30, 2020. Benefits liabilities estimates could vary significantly when the annual valuation is prepared by an independent actuarial consultant at year end.

The unfunded liability of \$141.7 million decreased \$31.3 million from June 30, 2019.

Statement of Operations

There was a comprehensive loss of \$67.6 million for the six months ended June 30, 2020, resulting in an increase to the unfunded liability. The current funding strategy, approved in June 2020 anticipates a comprehensive loss of \$284.4 million. The year-to-date comprehensive loss is tracking better than the plan at this point, primarily driven by a swift recovery in investment markets during the second quarter. The impact on the funding strategy will be measured as the variance of the 2020 comprehensive income 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 six 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. Looking forward, further challenges to the funded ratio will be introduced with the implementation of IFRS 17– Insurance Contracts is effective January 1, 2023. This standard will have material impacts for the WCB’s financial reporting, as discussed in the 2019 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. This standard will introduce significant volatility to the funded ratio on a financial statement reporting basis.

Revenue

Assessment revenue year-to-date is \$142.3 million composed of insured firms’ revenue of \$138.6 million and \$3.7 million from administering self-insured claims. Insured revenue decreased \$13.4 million (8.6 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 \$5.5 million, a decrease of \$169.5 million over the same period in 2019. The year-to-date return was 0.5 per cent, as compared to the benchmark return of 0.9 per cent. The benchmark is useful for assessing performance of the fund over the longer term. The year-to-date return reflects the COVID-19 markets selloff at the end of the first quarter that resulted in a loss of \$167.6 million offset as investments rebounded in the second quarter in response to global monetary and fiscal stimulus programs with a gain of \$162.1 million. 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 \$100.8 million are a decrease of \$2.0 million (2.0 per cent) over the same period of 2019 and are estimated for the first six months of the year based on a mid-year valuation performed for data as of June 30, 2020.

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was \$65.5 million. The growth component was \$52.2 million, and increased by estimated unfavourable actuarial experience adjustments of \$13.3 million related to Short Term Disability and Health Care costing more than previous valuations expected.

Administrative Expenditures (Operating, Projects, and Capital)

Year-to-date operating expenditures were \$27.2 million with a \$2.0 million favourable variance from the \$29.2 million year-to-date budget, excluding capital and projects. Including projects and capital, the total administrative variance was a favourable \$2.9 million on expenditures of \$34.4 million. Favourable operating variances primarily relate to salary, depreciation, services contracted, capital, and smaller variances in other areas. Variances are expected to be utilized by year end.

Legislated Obligations

Legislated Obligations expenditures were \$8.6 million with a \$0.9 million favourable variance from budget. Smaller favourable variances in Occupational Health & Safety and the Workers Compensation Appeals Tribunal.

Statement of Cash Flow

The Statement of Cash Flows demonstrates cash of \$5.3 million at June 30, 2020. This was an increase of \$4.3 million from June 30, 2019.

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

	JUNE 30 2020 (Unaudited) (\$000s)	JUNE 30 2019 (Unaudited) (\$000s)	DECEMBER 31 2019 (Audited) (\$000s)
Assets			
Cash & cash equivalents	\$ 5,282	\$ 997	\$ 11,082
Receivables	41,222	33,410	39,816
Investments	1,951,286	1,896,210	1,957,305
Property and equipment	5,988	6,482	6,493
Intangible assets	<u>30,537</u>	<u>31,809</u>	<u>32,126</u>
	<u>\$ 2,034,315</u>	<u>\$ 1,968,908</u>	<u>\$ 2,046,822</u>
Liabilities and Unfunded Liability			
Payables, accruals & lease liabilities	\$ 55,685	\$ 36,188	\$ 51,019
Post employment benefits	30,607	24,196	29,552
Benefits liabilities	<u>2,078,765</u>	<u>2,068,561</u>	<u>2,040,415</u>
	2,165,057	2,128,945	2,120,986
Deferred revenue	11,000	13,000	-
Unfunded liability	<u>(141,742)</u>	<u>(173,037)</u>	<u>(74,164)</u>
	<u>\$ 2,034,315</u>	<u>\$ 1,968,908</u>	<u>\$ 2,046,822</u>

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

	SECOND QUARTER 2020 (\$000s)	SECOND QUARTER 2019 (\$000s)	YTD JUNE 30 2020 (\$000s)	YTD JUNE 30 2019 (\$000s)
Revenue				
Assessments	\$ 67,610	\$ 79,489	\$ 142,328	\$ 155,765
Investment income (loss)	<u>162,119</u>	<u>47,261</u>	<u>(5,532)</u>	<u>164,000</u>
	<u>229,729</u>	<u>126,750</u>	<u>136,796</u>	<u>319,765</u>
Expenses				
Claims costs incurred				
Short-term disability	11,394	11,041	23,578	22,052
Long-term disability	24,661	23,282	48,209	49,803
Survivor benefits	8	549	693	1,207
Health care	12,854	15,666	27,890	29,244
Rehabilitation	<u>207</u>	<u>336</u>	<u>416</u>	<u>529</u>
	49,124	50,874	100,786	102,835
Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease	45,429	22,229	65,467	46,036
Administration costs	14,543	16,855	29,021	30,725
System support	249	245	499	490
Legislated obligations	<u>4,017</u>	<u>4,514</u>	<u>8,601</u>	<u>8,925</u>
	<u>113,362</u>	<u>94,717</u>	<u>204,374</u>	<u>189,011</u>
Excess of revenues over expenses (expenses over revenues), applied to reduce (increase) the unfunded liability	<u>\$ 116,367</u>	<u>\$ 32,033</u>	<u>\$ (67,578)</u>	<u>\$ 130,754</u>

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

	SECOND QUARTER 2020 (\$000s)	SECOND QUARTER 2019 (\$000s)	YTD JUNE 30 2020 (\$000s)	YTD JUNE 30 2019 (\$000s)
Unfunded liability excluding accumulated other comprehensive income				
Balance, beginning of period	\$ (258,109)	\$ (205,070)	\$ (66,962)	\$ (301,084)
Excess of revenues over expenses (expenses over revenues), applied to reduce (increase) the unfunded liability	<u>116,367</u> <u>(141,742)</u>	<u>32,033</u> <u>(173,037)</u>	<u>(67,578)</u> <u>(134,540)</u>	<u>130,754</u> <u>(170,330)</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>\$ (141,742)</u>	<u>\$ (173,037)</u>	<u>\$ (141,742)</u>	<u>\$ (173,037)</u>

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

	June 30 2020 (\$000's)	June 30 2019 (\$000's)
Operating Activities		
Cash received from:		
Employers, for assessments	\$ 151,877	\$ 166,546
Investment loss	(3,444)	(3,473)
	148,433	163,073
Cash paid to:		
Claimants or third parties on their behalf	(126,428)	(121,617)
Suppliers, for administrative and other goods and services	(30,794)	(32,203)
	(157,222)	(153,820)
Net cash (used in) provided by operating activities	(8,789)	9,253
Investing Activities		
Decrease in investments	3,929	3,770
Cash paid for:		
Purchase of equipment and intangible assets	(940)	(3,334)
	2,989	436
Net (decrease) increase in cash and cash equivalents	(5,800)	9,689
Cash and cash equivalents, (bank indebtedness), beginning of year	11,082	(8,692)
Cash and cash equivalents, end of period	\$ 5,282	\$ 997

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 June 30, 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 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 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 mid year 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 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 mid year valuation 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).