

Workers' Compensation Board of Nova Scotia

Summary of Financial Results

Third Quarter 2016

- *Year-to-date revenues exceeded expenses for a comprehensive income of \$42.3 million, decreasing the unfunded liability and resulting in a funded ratio of 83.1% compared to 80.5% at the prior quarter, June 30, 2016.*
 - *Primarily due to:*
 - *Investment markets – YTD return of 6.1%. The return was less than the benchmark return of 6.2%. The estimated return for the year in the funding strategy is 6.0%.*
 - *Assessment revenue being equal to the funding strategy to this point.*
 - *Favourable actuarial experience adjustments of \$7.3 million for the year-to-date, from the midyear valuation.*
 - *The current funding strategy expectation is comprehensive income of \$32.0 million for the year and we are on track to meet this target. The caveat is the investment and economic market performance.*
 - *These results, while positive, are not necessarily a prediction of what will take place for the remainder of the year.*

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SUMMARY OF FINANCIAL RESULTS THIRD QUARTER 2016

Statement of Financial Position

The Workers' Compensation Board of Nova Scotia's (WCB) asset base at September 30, 2016 was \$1,664.7 million, an increase of \$141.3 million as compared to September 30, 2015. 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 benchmark investment portfolio asset mix as at September 30, 2016 includes public equity at 50%, fixed income at 30%, hedge funds at 10% and real estate at 10%.

Benefits liabilities of \$1,933.9 million increased \$11.7 million from September 30, 2015 to September 30, 2016. These liabilities have been estimated based on 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 Comprehensive Income of \$42.3 million for the nine months ended September 30, 2016, decreasing the unfunded liability. The current funding strategy, approved in June 2016, anticipated Comprehensive Income for 2016 of \$32.0 million. The year-to-date Comprehensive Income is primarily driven by investment returns and favourable actuarial experience adjustments. The impact on the funding strategy will be measured as the variance of the 2016 Comprehensive Income to the funding strategy estimate. These results, while positive, are not necessarily a prediction of what will take place for the remainder of the year.

Revenue

Assessment revenue year-to-date is \$237.9 million composed of insured firms' revenue of \$208.2 million and self-insured revenue of \$29.7 million. Revenue increased \$14.8 million (6.7%) versus the same period in 2015 and reflects an increase related to insured firms' assessment premium revenue. Insured firms' revenue is net of funds collected for rebate and refund programs of \$3.4 million.

Investment income year-to-date is \$91.0 million, an increase of \$71.1 million over the same period in 2015. Investment income is the result of realized gains of \$1.4 million, unrealized gains of \$88.2 million, realized currency overlay losses of \$10.4 million and unrealized currency overlay gains of \$15.6 million less \$3.8 million in management fees.

The nine month return was 6.1% and was less than the benchmark return of 6.2%. 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 \$157.7 million are a decrease of \$2.8 million (1.8%) over year-to-date 2015 and are estimated based on 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 \$75.1 million. The growth component was \$80.7 million plus an additional \$1.7 million growth amount for latent occupational disease, partially offset by estimated favourable actuarial experience adjustments of \$7.3 million, projected at \$9.8 million for the year. Favourable actuarial experience adjustments are currently projected in most areas with the exception of survivor and health care benefits categories. The current funding strategy anticipated favourable experience adjustments for the year of \$10.0 million, and this is on par with the midyear valuation.

Administrative Expenditures (Operating, Projects)

Year-to-date operating expenditures were \$43.6 million including all projects.

Legislated Obligations

Legislated Obligations expenditures were \$11.7 million.

Statement of Cash Flow

The Statement of Cash Flows demonstrates the use of cash year-to-date, with Cash being \$0.3 million at September 30, 2016. This was a decrease of \$3.5 million from September 30, 2015.

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

	SEPTEMBER 30 2016 (Unaudited) (\$000s)	SEPTEMBER 30 2015 (Unaudited) (\$000s)	DECEMBER 31 2015 (audited) (\$000s)
Assets			
Cash & cash equivalents	\$ 259	\$ 3,748	\$ 1,805
Receivables	22,718	18,197	28,190
Investments	1,636,742	1,496,495	1,546,039
Property and equipment	3,910	4,208	4,307
Intangible assets	<u>1,039</u>	<u>786</u>	<u>1,184</u>
	<u>\$ 1,664,668</u>	<u>\$ 1,523,434</u>	<u>\$ 1,581,525</u>
Liabilities and Unfunded Liability			
Payables and accruals	\$ 36,011	\$ 32,062	\$ 37,443
Lease liabilities	37	106	83
Post employment benefits	28,112	29,847	26,804
Benefits liabilities	<u>1,933,944</u>	<u>1,922,219</u>	<u>1,899,061</u>
	1,998,104	1,984,234	1,963,391
Deferred revenue	6,100	8,817	-
Unfunded liability	<u>(339,536)</u>	<u>(469,617)</u>	<u>(381,866)</u>
	<u>\$ 1,664,668</u>	<u>\$ 1,523,434</u>	<u>\$ 1,581,525</u>

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

	THIRD QUARTER 2016 (\$000s)	THIRD QUARTER 2015 (\$000s)	YTD SEPTEMBER 30 2016 (\$000s)	YTD SEPTEMBER 30 2015 (\$000s)
Revenue				
Assessments	\$ 85,261	\$ 75,888	\$ 237,866	\$ 223,020
Investment income	<u>60,455</u>	<u>(56,595)</u>	<u>91,006</u>	<u>19,925</u>
	<u>145,716</u>	<u>19,293</u>	<u>328,872</u>	<u>242,945</u>
Expenses				
Claims costs incurred				
Short-term disability	10,636	10,648	31,294	31,262
Long-term disability	25,839	25,169	77,090	76,399
Survivor benefits	1,142	1,948	3,255	4,120
Health care	15,046	14,080	45,434	42,415
Rehabilitation	<u>211</u>	<u>267</u>	<u>646</u>	<u>756</u>
	<u>52,874</u>	<u>52,112</u>	<u>157,719</u>	<u>154,952</u>
Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease	25,026	11,059	75,076	55,656
Administration costs	14,274	11,764	41,349	35,617
System support	222	211	706	658
Legislated obligations	<u>3,810</u>	<u>3,769</u>	<u>11,692</u>	<u>11,242</u>
	<u>96,206</u>	<u>78,915</u>	<u>286,542</u>	<u>258,125</u>
Excess of revenues over expenses (expenses over revenues) applied to reduce (increase) the unfunded liability	<u>\$ 49,510</u>	<u>\$ (59,622)</u>	<u>\$ 42,330</u>	<u>\$ (15,180)</u>

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

	THIRD QUARTER 2016 (\$000s)	THIRD QUARTER 2015 (\$000s)	YTD SEPTEMBER 30 2016 (\$000s)	YTD SEPTEMBER 30 2015 (\$000s)
Unfunded liability excluding accumulated other comprehensive income				
Balance, beginning of period	\$ (389,046)	\$ (409,995)	\$ (376,017)	\$ (444,927)
Excess of revenues over expenses (expenses over revenues)	<u>49,510</u>	<u>(59,622)</u>	<u>42,330</u>	<u>(15,180)</u>
	<u>(339,536)</u>	<u>(469,617)</u>	<u>(333,687)</u>	<u>(460,107)</u>
Accumulated other comprehensive income				
No change in balance during period	<u>-</u>	<u>-</u>	<u>(5,849)</u>	<u>(9,510)</u>
Unfunded liability end of period	\$ <u>(339,536)</u>	\$ <u>(469,617)</u>	\$ <u>(339,536)</u>	\$ <u>(469,617)</u>

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

	September 30 2016 (\$000's)	September 30 2015 (\$000's)
Operating Activities		
Cash received from:		
Employers, for assessments	\$ 246,221	\$ 237,236
Investment (loss) income	(12,850)	237,590
	<u>233,371</u>	<u>474,826</u>
Cash paid to:		
Claimants or third parties on their behalf	(193,006)	(187,400)
Suppliers, for administrative and other goods and services	(54,655)	(49,478)
	<u>(247,661)</u>	<u>(236,878)</u>
Net cash (used by) provided by operating activities	<u>(14,290)</u>	<u>237,948</u>
Investing Activities		
Increase (decrease) in investments	13,155	(237,410)
Cash paid for:		
Purchase of equipment	(411)	(594)
	<u>12,744</u>	<u>(238,004)</u>
Net cash provided by (used in) investing activities	<u>12,744</u>	<u>(238,004)</u>
Net (decrease) in cash and cash equivalents	<u>(1,546)</u>	<u>(56)</u>
Cash and cash equivalents, beginning of year	<u>1,805</u>	<u>3,804</u>
Cash and cash equivalents, end of period	<u>\$ 259</u>	<u>\$ 3,748</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, 2015) and present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies as at September 30, 2016, including 2015 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 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 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 year-end 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. 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 mid-year 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.

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.