

Workers' Compensation Board of Nova Scotia

Summary of Financial Results

Second Quarter 2015

- *Year-to-date revenues exceeded expenses for a total comprehensive income of \$44.4 million, decreasing the unfunded liability and resulting in a funded ratio of 79.5% year to date June 30, 2015.*
 - *In line with funding strategy expectation of \$41.4 million for the year.*
 - *The second quarter resulted in a decline in total comprehensive income of \$35.8 million – primarily due to declines in investment markets – YTD return of 5.3% ahead of benchmark return of 4.5%; however, decline of 0.8% for the quarter.*
- *Mid-year valuation – anticipates favourable actuarial experience adjustments of \$20 million for the year, primarily favorable EERB experience (fewer new EERBs, average award in line with expectations, age higher and higher mortality). Potential for further adjustments if experience continues.*

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 SECOND QUARTER 2015

Statement of Financial Position

The Workers' Compensation Board of Nova Scotia's (WCB) asset base at June 30, 2015 was \$1,584.4 million, an increase of \$108.8 million as compared to June 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 June 30, 2015 includes equity at 60%, fixed income at 30% and real estate at 10%.

Benefits liabilities of \$1,924.3 million increased \$29.2 million from June 30, 2014 to June 30, 2015. These liabilities have been estimated based on the estimates of a mid-year actuarial valuation that was performed by an independent actuarial consultant 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 \$44.4 million for the six months ended June 30, 2015, decreasing 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 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 2015 comprehensive income to the funding strategy estimate.

Revenue

Assessment revenue year to date is \$147.1 million composed of insured firms' revenue of \$127.5 million and self-insured revenue of \$19.6 million. Revenue increased \$2.7 million (1.9%) versus the same period in 2014 and reflects increases related to: insured firms' assessment premium revenue of \$1.0 million, self-insured revenue of \$1.0 million and incentive programs \$0.7 million over the same period in 2014. Insured firms' revenue is net of funds collected for rebate and refund programs of \$2.3 million.

Investment income year to date is \$76.5 million, a decrease of \$22.6 million over the same period in 2014. Investment income is the result of interest and dividends of \$18.1 million, realized gains of \$244.7 million, unrealized losses of \$169.2 million, realized currency overlay losses of \$15.1 million and unrealized currency overlay gains of \$0.4 million less \$2.4 million in management fees. The six month return was 5.3% exceeding the benchmark return of 4.5%. History has shown that investment markets

are volatile and therefore the results year to date are not necessarily indicative of what will happen the rest of the year.

Claims Costs Incurred, Growth in Present Value of Benefits Liability and Experience Adjustments

Claims costs incurred of \$102.8 million are an increase of \$1.5 million (1.5%) over year to date 2014 and are estimated based on a mid-year valuation of year to date claims payments for current and prior years' injuries.

The year to date net growth in the present value of the benefits liability and actuarial experience adjustments was \$44.6 million. The growth component was \$55.0 million and is offset by the estimated favourable actuarial experience adjustments of \$10.4 million (approximately \$20 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 \$25.2 million.

Legislated Obligations

Legislated Obligations expenditures were \$7.5 million with a \$0.8 million favourable variance from the year to date budget estimate. This is mainly attributable to Occupational Health and Safety and the Workers Compensation Appeals Tribunal.

Statement of Cash Flow

The Statement of Cash Flows demonstrates the use of cash for the year to date on a comparative basis. Bank indebtedness was \$5.0 million at June 30, 2015, a decrease of \$6.5 million from the June 30, 2014 cash position.

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

	JUNE 30 2015 (Unaudited) (\$000s)	JUNE 30 2014 (Unaudited) (\$000s)	DECEMBER 31 2014 (Audited) (\$000s)
Assets			
Cash & cash equivalents	\$ -	\$ 1,502	\$ 3,804
Receivables	26,685	28,900	25,378
Investments	1,553,135	1,440,763	1,476,748
Property and equipment	4,190	4,352	4,402
Intangible assets	830	544	917
	<u>\$ 1,584,840</u>	<u>\$ 1,476,061</u>	<u>\$ 1,511,249</u>
Liabilities and Unfunded Liability			
Bank indebtedness	\$ 5,025	\$ -	\$ -
Payables and accruals	27,081	25,693	33,801
Lease liabilities	128	205	171
Post-employment benefits	29,292	23,371	28,158
Benefits liabilities	1,924,256	1,895,095	1,903,556
	<u>1,985,782</u>	<u>1,944,364</u>	<u>1,965,686</u>
Deferred revenue	9,053	14,135	
Unfunded liability	(409,995)	(482,438)	(454,437)
	<u>\$ 1,584,840</u>	<u>\$ 1,476,061</u>	<u>\$ 1,511,249</u>

WORKERS' COMPENSATION BOARD OF NOVA SCOTIA
STATEMENT OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30
(UNAUDITED)

	SECOND QUARTER 2015 (\$000s)	SECOND QUARTER 2014 (\$000s)	YTD JUNE 30 2015 (\$000s)	YTD JUNE 30 2014 (\$000s)
Revenue				
Assessments	\$ 74,959	\$ 72,998	\$ 147,133	\$ 144,407
Investment income	(13,214)	43,323	76,519	99,099
	<u>61,745</u>	<u>116,321</u>	<u>223,652</u>	<u>243,506</u>
Expenses				
Claims costs incurred				
Short-term disability	10,377	9,634	20,614	19,383
Long-term disability	25,745	26,150	51,229	51,454
Survivor benefits	834	556	2,172	2,290
Health care	14,562	14,008	28,336	27,764
Rehabilitation	171	102	489	467
	<u>51,689</u>	<u>50,450</u>	<u>102,840</u>	<u>101,358</u>
Growth in present value of benefits liabilities and actuarial adjustments	29,752	19,892	44,597	41,456
Administration costs	12,064	11,473	23,853	22,829
System support	217	242	447	481
Legislated obligations	3,796	3,727	7,473	7,591
	<u>97,518</u>	<u>85,784</u>	<u>179,210</u>	<u>173,715</u>
Excess of (expenses over revenues) revenues over expenses applied to (increase) reduce the unfunded liability	<u>\$ (35,773)</u>	<u>\$ 30,537</u>	<u>\$ 44,442</u>	<u>\$ 69,791</u>

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

	SECOND QUARTER 2015 (\$000s)	SECOND QUARTER 2014 (\$000s)	YTD JUNE 30 2015 (\$000s)	YTD JUNE 30 2014 (\$000s)
Unfunded liability excluding accumulated other comprehensive income				
Balance, beginning of period	\$ (374,222)	\$ (512,975)	\$ (444,927)	\$ (546,488)
Excess of (expenses over revenues) revenues over expenses	<u>(35,773)</u>	<u>30,537</u>	<u>44,442</u>	<u>69,791</u>
	<u>(409,995)</u>	<u>(482,438)</u>	<u>(400,485)</u>	<u>(476,697)</u>
Accumulated other comprehensive income				
No change in balance during the period	<u>-</u>	<u>-</u>	<u>(9,510)</u>	<u>(5,741)</u>
Unfunded liability end of period	<u>\$ (409,995)</u>	<u>\$ (482,438)</u>	<u>\$ (409,995)</u>	<u>\$ (482,438)</u>

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

	June 30 2015 (\$000's)	June 30 2014 (\$000's)
Operating Activities		
Cash received from:		
Employers, for assessments	\$ 153,726	\$ 152,990
Investment income	<u>245,301</u>	<u>19,266</u>
	399,027	172,256
Cash paid to:		
Claimants or third parties on their behalf	(123,810)	(120,923)
Suppliers, for administrative and other goods and services	<u>(38,581)</u>	<u>(36,282)</u>
	(162,391)	(157,205)
Net cash provided by operating activities	<u>236,636</u>	<u>15,051</u>
Investing Activities		
Increase in investments	(245,161)	(19,602)
Cash paid for:		
Purchase of equipment	<u>(304)</u>	<u>(306)</u>
Net cash used in investing activities	<u>(245,465)</u>	<u>(19,908)</u>
Financing Activities		
Change in bank indebtedness	<u>5,025</u>	<u>-</u>
Net cash provided by financing activities	<u>5,025</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	<u>(3,804)</u>	<u>(4,857)</u>
Cash and cash equivalents, beginning of year	<u>3,804</u>	<u>6,359</u>
Cash and cash equivalents, end of period	<u>\$ -</u>	<u>\$ 1,502</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 June 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 a mid-year actuarial valuation. 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 a 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. 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.

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.