

**WCB Nova Scotia
Summary of Financial Results
Quarter Ended September 30, 2023**

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SUMMARY OF FINANCIAL RESULTS THIRD QUARTER 2023

New Accounting Policy Implementation January 1, 2023

The new international accounting standard has been mandated which results in a change to the financial statements for insurance companies and all workers' compensation boards in Canada.

International Financial Reporting Standard (IFRS) 17 Insurance Contracts is effective January 1, 2023, replacing IFRS 4 Insurance Contracts. The retrospective application applied with the initial implementation of IFRS 17 results in restated 2022 comparative financial statements reflecting the new standard.

Though the economic fundamentals of workers' compensation boards have not changed, there are changes to how insurance revenue and liabilities are recognized and presented in the financial statements. The new standard requires the use of a discount rate based on market-based information versus the long-term expected return on assets and is expected to produce more short-term volatility in the financial statements. However, the long-term expected return on asset rate will continue to be utilized for funding and setting premium rates.

Statement of Financial Position

The WCB Nova Scotia's (WCB) asset base as at September 30, 2023 was \$2,345.9 million, an increase of \$114.5 million as compared to September 30, 2022. This was primarily due to an increase in 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 target investment portfolio asset mix includes public equities at 30 per cent, fixed income at 20 per cent, hedge funds at 6 per cent, real estate at 13 per cent and alternative investments at 31 per cent. At any given time, the fund's asset allocation may differ from the benchmark.

Total liabilities at September 30, 2023 are \$2,539.9 million, primarily comprised of Insurance contract liabilities of \$2,482.4 million, an increase of \$9.4 million from September 30, 2022. These liabilities have been estimated for year to date based on an extrapolation performed on data as of September 30, 2023 and projected forward for the remainder of the year. Insurance contract liabilities estimates could vary when the annual valuation is prepared by an independent actuarial consultant at year-end and is particularly sensitive to changes in the discount rate. When measuring liabilities for incurred claims, the discount is updated on a quarterly basis.

For September 30, 2023, financial results show an unfunded position of \$194.0 million, an improvement of \$124.6 million from September 30, 2022.

Statement of Operations

Year-to-date comprehensive income of \$20.1 million. This result is down \$0.5 million from the second quarter year-to-date comprehensive income as a result of investment losses in the quarter primarily offset by reduced insurance contract liabilities (as a result of the increase in the discount rate).

Insurance Service Result

The Net insurance service result, income year to date, was \$49.6 million. This is the result of insurance revenue less insurance expenses.

Insurance revenue is the amount of expected premium receipts from the assessed employers. Total revenue year-to-date is \$303.5 million, a decrease of \$36.9 million (10.9 per cent) versus the same period in 2022. Insurance revenue increased \$28.3 million (10.4 per cent). Revenue for 2022 included a contribution from the Province of Nova Scotia of \$68.5 million provided to the WCB to cover the additional liability in relation to a change in regulation for firefighters.

The total insurance service expenses were \$253.9 million. Insurance service expenses include:

- Claims costs incurred of \$190.1 million, a decrease of \$21.5 million (10.2 per cent) over the same comparative time period of 2022. Primarily \$24.3 million due to a lower discount rate in 2022 and the remaining decrease in claims costs of \$2.8 million.
- Changes to actuarial assumptions of \$26.9 million, primarily due to an unfavourable adjustments in health care and a larger number of long term awards.
- Administrative expenses of \$36.9 million that relate directly to the insurance contracts.

Financing Result

The Net financing result for the period was a loss of \$8.3 million, compared to a loss of \$27.5 million in the same period in 2022. This is the result of investment income less insurance financing expense.

Investment income year to date is \$20.5 million. This reflects a year to date return of 2.2 per cent, reflecting investment market volatility around interest rates, inflation, economic and world wide climate.

The insurance finance expense was \$28.8 million, which is a result of the year-to-date net growth in the present value of the benefits liability of \$97.0 million, offset by \$68.2 million in interest income due to an increase in the market rate utilized to discount the contracts (5.3% at year-end to 5.8%).

Other Revenue and Expenses

The net of other revenues and expenses were \$21.2 million are discussed below.

Other revenue reflects self-insured revenue year-to-date, \$6.2 million from administering self-insured claims.

Other administration expenses are the portion of administrative expenses that do not directly relate to administering insurance contracts of \$11.7 million. Administration expenses are discussed in further detail below.

Legislated Obligations expenditures were \$14.8 million with a \$1.4 million favourable variance from budget. Occupational Health and Safety, the Workers' Advisers program and the Workers' Compensation Appeals Tribunal all reported favourable variances.

System Support expenditures were \$0.9 million.

Budget Reporting: Administrative Expenses

Total year-to-date operating expenditures were \$48.5 million with a \$2.5 million favourable variance from the \$51.0 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 \$54.0 million versus the \$58.0 million budget. Favourable net variances primarily relate to salaries, projects, services contracted, and depreciation, with smaller favourable variances in other programs.

Statement of Cash Flow

The Statement of Cash Flows demonstrates cash of \$30.8 million as at September 30, 2023. This was an increase of \$0.4 million from September 30, 2022.

**WCB NOVA SCOTIA
STATEMENT OF FINANCIAL POSITION
AS AT SEPTEMBER 30**

	SEPTEMBER 30 2023 (Unaudited) (\$000s)	SEPTEMBER 30 2022 (Unaudited) (restated) (\$000s)	DECEMBER 31 2022 (Unaudited) (restated) (\$000s)
ASSETS			
Cash and cash equivalents	\$ 30,798	\$ 30,422	\$ 31,330
Other receivables	19,238	14,750	8,796
Investments	2,267,742	2,157,127	2,239,651
Property and equipment	3,613	4,046	3,946
Intangible assets	24,550	25,072	25,271
	\$ 2,345,941	\$ 2,231,417	\$ 2,308,994
LIABILITIES AND UNFUNDED POSITION			
Other payables and accrued liabilities	\$ 36,825	\$ 49,274	\$ 52,849
Post employment benefits	20,632	27,704	19,727
Insurance contract liabilities	2,482,447	2,472,990	2,450,497
	2,539,904	2,549,968	2,523,073
Unfunded position	(193,963)	(318,551)	(214,079)
	\$ 2,345,941	\$ 2,231,417	\$ 2,308,994

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

	THIRD QUARTER 2023 (\$000s)	THIRD QUARTER 2022 (restated) (\$000s)	YTD SEPTEMBER 30 2023 (\$000s)	YTD SEPTEMBER 30 2022 (restated) (\$000s)
Insurance revenue				
Insurance revenue	\$ 97,519	\$ 93,091	\$ 300,190	\$ 271,937
Other Contribution - Province of NS	1,093	68,470	3,278	68,470
Total insurance revenue	<u>98,612</u>	<u>161,561</u>	<u>303,468</u>	<u>340,407</u>
Insurance service expenses				
Claims costs incurred	(68,681)	(70,002)	(190,095)	(211,624)
Assumptions change and actuarial experience adjustment	(16,267)	(44,338)	(26,883)	(129,748)
Onerous loss expense and reversals	-	668	-	(668)
Administration expense	(12,395)	(11,718)	(36,938)	(35,076)
Total insurance service expenses	<u>(97,343)</u>	<u>(125,390)</u>	<u>(253,916)</u>	<u>(377,116)</u>
Net insurance service result income (loss)	1,269	36,171	49,552	(36,709)
Investment (loss) income	(44,387)	25,080	20,552	(258,366)
Insurance finance income (expense)	49,935	76,905	(28,836)	230,908
Net financing result income (loss)	5,548	101,985	(8,284)	(27,458)
Other revenue and expenses				
Self-insured revenue	2,075	1,962	6,164	5,839
Other administration expense	(3,914)	(3,700)	(11,664)	(11,077)
System support	(274)	(260)	(843)	(774)
Legislated obligations	(5,176)	(5,092)	(14,810)	(14,716)
Total other expenses greater than other revenues	(7,289)	(7,090)	(21,153)	(20,728)
Excess of (expenses over revenues) revenues over expenses applied to (decrease) increase the funded position	\$ (472)	\$ 131,066	\$ 20,115	\$ (84,895)

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

	THIRD QUARTER 2023 (\$000s)	THIRD QUARTER 2022 (restated) (\$000s)	YTD SEPTEMBER 30 2023 (\$000s)	YTD SEPTEMBER 30 2022 (restated) (\$000s)
UNFUNDED POSITION				
Unfunded position excluding accumulated other comprehensive income				
Balance, beginning of period	\$ (193,491)	\$ (449,617)	\$ (222,410)	\$ (233,653)
Excess of (expenses over revenues) revenues over expenses applied to (decrease) increase the funded position	(472)	131,066	20,115	(84,895)
	<u>(193,963)</u>	<u>(318,551)</u>	<u>(202,295)</u>	<u>(318,548)</u>
Accumulated other comprehensive income				
Balance, beginning of Year	-	-	8,332	(3)
	<u>-</u>	<u>-</u>	<u>8,332</u>	<u>(3)</u>
UNFUNDED POSITION, END OF PERIOD	\$ (193,963)	\$ (318,551)	\$ (193,963)	\$ (318,551)

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

	SEPTEMBER 30 2023 (\$000's)	SEPTEMBER 30 2022 (\$000's)
Operating Activities		
Cash received from:		
Employers, for insurance premiums and self-insured administration fees	\$ 308,449	\$ 281,472
Other contribution - Prov of NS	3,278	68,470
Investment income (loss)	569	(2,662)
	312,296	347,280
Cash paid to:		
Claimants or third parties on their behalf	(240,823)	(208,507)
Suppliers, for administrative and other goods and services	(61,735)	(44,994)
	(302,558)	(253,501)
Net cash provided by operating activities	9,738	93,779
Investing Activities		
Increase in investments	(7,912)	(63,765)
Cash paid for:		
Purchase of equipment and intangible assets	(2,358)	(3,157)
	(10,270)	(66,922)
Net cash used in investing activities	(10,270)	(66,922)
Net (decrease) increase in cash and cash equivalents	(532)	26,857
Cash and cash equivalents, beginning of year	31,330	3,565
Cash and cash equivalents, end of period	\$ 30,798	\$ 30,422

Notes to Financial Statements

1. Basis of Presentation of Interim Financial Statements

The IFRS 17 – Insurance Contracts standard is effective January 1, 2023, replacing IFRS 4 Insurance Contracts. It introduces new recognition and measurement approaches for insurance revenue and liabilities and includes the move to market-based interest rates used to discount the future cash flows of the benefits liabilities.

For the Summary of Financial Results, the WCB has restated comparative information for 2022 and will apply the transitional provisions to IFRS 17 in the 2023 financial statements.

Unaudited Interim financial statements present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies including prior year comparative figures.

The interim financial statements are prepared on a basis consistent with annual financial statements with the exception of Insurance service expense and Insurance finance income or expenses. These figures were determined by an extrapolation of current and future years' claims costs. Insurance Contracts 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

Other Receivables include self-insured employers' receipts, net of self-insured deposits, as well as receivables not directly related to fulfillment of the insurance contract.

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.

Insurance Contracts Liabilities represent an estimate based on projections of claims costs incurred, actuarial experience adjustments, and changes in present value of the Benefits Liabilities, as well as Receivables, and Payables and accruals, related to the insurance contract fulfillment. Benefits Liability projections are determined by estimation and the yearend valuation for purposes of interim financial statements.

Other payables and accruals are those not related to insurance contract fulfillment. Commonly included in other payables are legislated obligations, staff benefits and salary, as well as a portion of general payables not allocated to insurance contract fulfillment.

3. Statement of Operations

Insurance revenue

The insurance revenue for the period is the amount of expected premium receipts from the assessed employers allocated to the period. The WCB allocates the expected premium receipts to each period of insurance contract services based on the passage of time. Premiums are billed when employers report their employees' insurable earnings for an applicable assessment year. For employers who have not reported, premiums are estimated based on historical experience and any difference between actual and estimated premiums is adjusted in the following year. As a significant portion of premium income for the year is not received until after year end, the amount recorded is a combination of actual and estimate based on statistical data. The difference between the estimate and the actual income received is adjusted to income in the following year. Historically, the difference has not been material.

Insurance revenue may include contributions from the Province of Nova Scotia that are directly related to insurance contract fulfillment.

Self-insured revenue is not considered insurance revenue and is reported separately under other revenues and expenses.

Insurance service expenses

Represent an estimate based on projections of claims costs incurred, actuarial experience adjustments, and changes in present value of the benefits liabilities, as well as receivables, and payables and accruals, related to the insurance policies. Insurance contract liability projections are determined by estimation and actuarial valuations for purposes of interim financial statements.

Claims costs incurred and actuarial experience adjustments and are estimates for short-term disability, health care, rehabilitation, long-term disability, and survivor benefits. Assumptions change and actuarial experience adjustments: comprise changes in what was predicted based on the actuarial assumptions and methods used in the prior valuation and what is expected to occur in the current year based on new information.

Insurance service result is the net of insurance revenue and insurance expenses.

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 the fair value of an investment. Investment income is presented as net of investment expenses.

Financing result

Investment income or loss, less insurance finance income / expense (growth in present value of benefits liabilities and the impact of quarterly discount rate changes)

4. Cash Flow Statement

This statement summarizes cash receipts and disbursements from all sources.

5. Administration Expenses

A portion of the Board's administrative expenses are allocated to the fulfillment of the insurance contract. This figure is presented under Insurance service expenses.

The remaining administrative expenses are presented under Other revenues and expenses.

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 worker's 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.