

WCB Nova Scotia Summary of Financial Results First Quarter 2021

Year-to-date results as of March 31st

Year to date, expenses exceeded revenues for a comprehensive loss of \$33.7 million, decreasing the funded position. The funded ratio is currently 101.3 per cent compared to 102.9 per cent at December 31, 2020.

- The comprehensive loss is primarily related to the following:
 - Investment income is flat for the quarter
 - Claims cost incurred increases in short term and long term disability over the prior quarter and were up 6.7 per cent, primarily due to increased durations. Challenges with return to work and access to services continue as the global pandemic continues.
 - Unfavourable experience is projected in short term and long term disability partially offset by favourable experience in medical aid and rehabilitation. Estimated unfavourable experience adjustments of \$6.4 million year-to-date due to a larger number of specialized adjudication claims expected, beyond what was anticipated to be paid.
- The WCB's operational and financial performance for 2021 will be tied to the future developments with the pandemic. The current approved funding strategy of June 2020 projected comprehensive income of \$118.9 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 of 2021.

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Table of Contents

Summary of Financial Results	3
Statement of Financial Position	6
Statement of Operations	7
Statement of Changes in the Funded Position	8
Statement of Cash Flows	9
Notes to Quarterly Financial Statements	10

SUMMARY OF FINANCIAL RESULTS FIRST QUARTER 2021

Statement of Financial Position

The WCB of Nova Scotia's (WCB) asset base at March 31, 2021 was \$2,206.2 million, an increase of \$324.9 million as compared to March 31, 2020. This was primarily due to increases in the market value of investments from the first quarter of 2020 when investment markets experienced significant decline as reaction for the declaration of the COVID pandemic.

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, 2021 includes public equities at 45 per cent, fixed income at 28 per cent, hedge funds at 9 per cent, real estate at 9 per cent and alternative investments at 9 per cent. At any given time, the fund's asset allocation may differ from the benchmark.

Benefits liabilities of \$2,087.6 million at March 31, 2021 increased \$38.2 million from March 31 2020. These liabilities have been estimated for the first three months of the year based on an extrapolation performed on data as of March 31, 2021 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 funded position is \$28.4 million as of March 31, 2021. This is a \$286.5 million improvement from the unfunded liability position as at March 31, 2020.

Statement of Operations

There was a comprehensive loss of \$33.7 million for the three months ended March 31, 2021, resulting in a decrease to the funded position from year-end. The current funding strategy, approved in June 2020 forecasted a comprehensive income of \$118.9 million based on the information available at that time. The impact on the funding strategy will be measured as the variance of the 2021 comprehensive income to the funding strategy forecast. 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.

There will be on-going volatility related to the funded position. Looking forward, the implementation of IFRS 17– Insurance Contracts with an effective date of January 1, 2023, will introduce volatility to the funded ratio on a financial statement reporting basis.

This standard will have material impacts for the WCB's financial reporting, as discussed in the 2020 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.

Revenue

Assessment revenue year-to-date is \$75.0 million comprised of insured firms' revenue of \$73.0 million and \$2.0 million from administering self-insured claims. Insured revenue increased \$0.1 million (0.1 per cent) versus the same period in 2020. Insured firms' revenue also includes funds collected for rebate and refund programs.

Investment income year-to-date is a loss of \$0.1 million, reflecting a return of 0.5 per cent for the quarter. Investment income increased \$167.6 million over the same period in 2020. 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 \$55.1 million are an increase of \$3.4 million (6.7 per cent) over the same period of 2020 and are estimated for the three months of the year based on an extrapolation of current and future years' costs.

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was \$34.2 million. The growth component was \$27.8 million and estimated unfavourable experience adjustments of \$6.4 million related to short term and long term disability costing being more than previous valuations expected.

Administrative Expenditures (Operating, Projects Expense, and Capital)

Year-to-date operating expenditures were \$14.1 million with a \$0.9 million favourable variance from the \$15.0 million year-to-date budget, excluding capital and projects. Including projects and capital, the total administrative variance was a favourable \$1.5 million on expenditures of \$15.7 million versus the \$17.2 million budget. Favourable variances primarily relate to projects, salaries, and professional fees.

Legislated Obligations

Legislated Obligations expenditures were \$4.8 million with a \$0.1 million favourable variance from budget. This was predominantly in the Workers' Compensation Appeals Tribunal.

Statement of Cash Flow

The Statement of Cash Flows demonstrates cash of \$3.9 million at March 31, 2021. This was a decrease of \$16.0 million from March 31, 2020.

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

	MARCH 31 2021 (Unaudited) (\$000s)	MARCH 31 2020 (Unaudited) (\$000s)	DECEMBER 31 2020 (Audited) (\$000s)
Assets			
Cash & cash equivalents	\$ 3,871	\$ 19,861	\$ -
Receivables	29,383	34,633	36,369
Investments	2,139,499	1,789,415	2,139,748
Property and equipment	5,213	6,226	5,613
Intangible assets	28,264	31,219	28,632
	<u>\$ 2,206,230</u>	<u>\$ 1,881,354</u>	<u>\$ 2,210,362</u>

Liabilities and Funded (Unfunded) Position

Bank indebtedness	\$ -	\$ -	\$ 2,740
Payables, accruals & lease liabilities	48,883	54,034	43,170
Post employment benefits	35,353	30,017	34,840
Benefits liabilities	2,087,563	2,049,412	2,067,519
	<u>2,171,799</u>	<u>2,133,463</u>	<u>2,148,269</u>
Deferred Revenue	6,000	6,000	-
Funded (unfunded) position	28,431	(258,109)	62,093
	<u>\$ 2,206,230</u>	<u>\$ 1,881,354</u>	<u>\$ 2,210,362</u>

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

	YTD MARCH 31 2021 (\$000s)	YTD MARCH 31 2020 (\$000s)
Revenue		
Assessments	\$ 74,997	\$ 74,718
Investment loss	<u>(57)</u>	<u>(167,651)</u>
	<u>74,940</u>	<u>(92,933)</u>
Expenses		
Claims costs incurred		
Short-term disability	13,662	12,184
Long-term disability	26,462	23,548
Survivor benefits	525	685
Health care	14,296	15,036
Rehabilitation	<u>154</u>	<u>209</u>
	55,099	51,662
Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease	34,213	20,038
Administration costs	14,265	14,478
System support	251	250
Legislated obligations	<u>4,774</u>	<u>4,584</u>
	<u>108,602</u>	<u>91,012</u>
Excess of (expenses over revenues) applied to (decrease) the funded position	\$ <u>(33,662)</u>	\$ <u>(183,945)</u>

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

	YTD	YTD
	MARCH 31	MARCH 31
	2021	2020
	(\$000s)	(\$000s)
<hr/>		
Funded (Unfunded) position excluding accumulated other comprehensive income		
Balance, beginning of period	\$ 72,516	\$ (66,962)
Excess of (expenses over revenues) applied to (decrease) the funded position	<u>(33,662)</u>	<u>(183,945)</u>
	<u>38,854</u>	<u>(250,907)</u>
Accumulated other comprehensive income		
Balance, beginning of Year	(10,423)	(7,202)
	<u>(10,423)</u>	<u>(7,202)</u>
FUNDED POSITION, END OF PERIOD	\$ <u>28,431</u>	\$ <u>(258,109)</u>

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

	MARCH 31 2021 (\$000's)	MARCH 31 2020 (\$000's)
Operating Activities		
Cash received from:		
Employers, for assessments	\$ 85,383	\$ 84,664
Investment Income (loss)	<u>5,223</u>	<u>(1,827)</u>
	90,606	82,837
Cash paid to:		
Claimants or third parties on their behalf	(68,504)	(62,121)
Suppliers, for administrative and other goods and services	<u>(9,778)</u>	<u>(13,644)</u>
	(78,282)	(75,765)
Net cash provided by operating activities	<u>12,324</u>	<u>7,072</u>
Investing Activities		
Increase in investments, net	(5,034)	2,052
Cash paid for:		
Purchase of equipment and intangible assets	<u>(679)</u>	<u>(345)</u>
Net cash (used in) provided by investing activities	<u>(5,713)</u>	<u>1,707</u>
Net increase in cash and cash equivalents	<u>6,611</u>	<u>8,779</u>
(Bank indebtedness), cash and cash equivalents, beginning of year	<u>(2,740)</u>	<u>11,082</u>
Cash and cash equivalents, end of period	<u>\$ 3,871</u>	<u>\$ 19,861</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, 2020) and present the WCB's financial position and results of operations on a basis consistent with selected IFRS accounting policies as at March 31, 2021, including 2020 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 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 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. 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 this valuation and 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 an 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).

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.

Glossary of Administration Expenses by Program Area

Salaries & Staff Expense:

Salaries, vacation pay, overtime, group insurance, hospital/medical benefits, CPP, employment insurance, superannuation, sitting fees, long term disability, post-employment benefits, standby pay, voluntary retirement, recruitment, recognition, arrangements and relocation costs

Professional Fees:

Audit fees, consultants, and legal fees

Depreciation:

Depreciation of the fixed assets and intangible assets over their useful life

Projects:

General projects

Supplies:

Photocopying, postage and courier, computer supplies, office supplies, records and periodicals

Building Operations:

Repairs and maintenance, rent, supplies, cleaning, utilities, taxes, insurance, rental of equipment, equipment and miscellaneous

Communications:

Advertising, art services, printing, telephone services, cell phones and data line communications

Services Contracted:

Maintenance and services of equipment, services contracted for temporary backfill of vacant staff positions

Travel and Accommodations:

Accommodations, meals, travel, room rentals, workers and witnesses travel expenses

Training and Development:

Supply costs for training aids, course fees, books, training related accommodations, training related travel, training related meals and corporate and staff membership dues