

# WCB Nova Scotia

## Summary of Financial Results

### Second Quarter 2021

#### Year-to-date results as of June 30th

Year to date, revenues exceeded expenses for a comprehensive income of \$30.5 million, increasing the funded position. The funded ratio is currently 104.2 per cent compared to 102.9 per cent at December 31, 2020.

- The comprehensive income is primarily related to the following:
  - Investment income is up for the quarter
  - Claims cost incurred increases in short term disability (STD), long term disability (LTD) and Healthcare (HC) over the prior quarter and were up 11.2 per cent, primarily due to increased durations. Challenges with return to work and access to services continue.
  - Mid-year valuation forecasts a net unfavourable experience adjustment from STD, LTD and Survivors which is partially off-set by favourable experience from HC and Rehabilitation. The unfavourable experience adjustments are due to: a larger number of EERBs and PIBs than expected and higher average EERB awards than expected for LTD and Survivor. For STD, the higher than expected STD payments are forecasted.
- 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 2021 anticipates comprehensive income of \$4.5 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 2021.

Prepared By: Financial Services

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## **SUMMARY OF FINANCIAL RESULTS SECOND QUARTER 2021**

### **Statement of Financial Position**

The WCB of Nova Scotia's (WCB) asset base at June 30, 2021 was \$2,313.0 million, an increase of \$278.7 million as compared to June 30, 2020. This was primarily due to increases in the market value of investments compared to the first two quarters of 2020 when investment markets experienced decline from the COVID-19 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 June 30, 2021 includes public equities at 44 per cent, fixed income at 28 per cent, hedge funds at 9 per cent, real estate at 9 per cent and alternative investments at 10 per cent. At any given time, the fund's asset allocation may differ from the benchmark.

Benefits liabilities of \$2,123.1 million at June 30, 2021 increased \$44.3 million from June 30 2020. 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, 2021. Benefits liabilities estimates could vary significantly when the annual valuation is prepared by an independent actuarial consultant at year end.

The funded position is \$92.6 million as of June 30, 2021. This is a \$234.3 million improvement from the unfunded liability position as at June 30, 2020.

### **Statement of Operations**

There was a comprehensive income of \$30.5 million for the six months ended June 30, 2021, resulting in a increase in the funded position from year-end. The current funding strategy, approved in June 2021 forecasts a comprehensive income of \$4.5 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. 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.

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 \$162.1 million comprised of insured firms' revenue of \$158.0 million and \$4.1 million from administering self-insured claims. Insured revenue increased \$19.4 million (14.0 per cent) versus the same period in 2020, at which time lower revenue was expected due to the pandemic. Insured firms' revenue also includes funds collected for rebate and refund programs.

Investment income year-to-date is \$92.9 million, reflecting a year-to-date return of 4.3 per cent. Investment income increased 98.5 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 \$112.1 million are an increase of \$11.3 million (11.2 per cent) over the same period of 2020 and are estimated for the six months of the year based on a mid-year valuation performed for data as of June 30, 2021

The year-to-date net growth in the present value of the benefits liability and actuarial experience adjustments was \$72.5 million. The growth component was \$53.6 million combined with estimated net unfavourable experience adjustments of \$18.9 million. This unfavourable adjustment related to STD, LTD and Survivors benefits which is partially off-set by favourable experience from HC and Rehabilitation.

## **Administrative Expenditures (Operating, Projects Expense, and Capital)**

Year-to-date operating expenditures were \$28.5 million with a \$1.7 million favourable variance from the \$30.2 million year-to-date budget, excluding capital and projects. Including projects and capital, the total administrative variance was a favourable \$2.4 million on expenditures of \$31.5 million versus the \$33.9 million budget. Favourable variances primarily relate to projects, capital, salaries, and professional fees with smaller favourable variances in other programs.

## **Legislated Obligations**

Legislated Obligations expenditures were \$9.4 million with a \$0.3 million favourable variance from budget. This was spread between favourable variances in the Workers' Compensation Appeals Tribunal and Workers Advisers Program and an unfavourable variance in Occupational Health and Safety.

## **Statement of Cash Flow**

The Statement of Cash Flows demonstrates cash of \$8.0 million at June 30, 2021. This was an increase of \$2.7 million from June 30, 2020.

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

|                         | <b>JUNE 30<br/>2021<br/>(Unaudited)<br/>(\$000s)</b> | <b>JUNE 30<br/>2020<br/>(Unaudited)<br/>(\$000s)</b> | <b>DECEMBER 31<br/>2020<br/>(Audited)<br/>(\$000s)</b> |
|-------------------------|--|--|--|
| <b>Assets</b>           |  |  |  |
| Cash & cash equivalents | \$ 7,977   | \$ 5,282   | \$ -   |
| Receivables             | 40,760   | 41,222   | 36,369   |
| Investments             | 2,232,306  | 1,951,286  | 2,139,748  |
| Property and equipment  | 4,854  | 5,988  | 5,613  |
| Intangible assets       | <u>27,072</u>  | <u>30,537</u>  | <u>28,632</u>  |
|                         | <u>\$ 2,312,969</u>                                  | <u>\$ 2,034,315</u>                                  | <u>\$ 2,210,362</u>                                    |

**Liabilities and Funded (Unfunded) Position**

|  |                     |                     |                     |
|--|---------------------|---------------------|---------------------|
| Bank indebtedness                      | \$ -                | \$ -                | \$ 2,740            |
| Payables, accruals & lease liabilities | 48,355              | 55,685              | 43,170              |
| Post employment benefits               | 35,931              | 30,607              | 34,840              |
| Benefits liabilities                   | <u>2,123,085</u>    | <u>2,078,765</u>    | <u>2,067,519</u>    |
|  | 2,207,371           | 2,165,057           | 2,148,269           |
| Deferred Revenue                       | 13,000              | 11,000              | -                   |
| Funded (unfunded) position             | <u>92,598</u>       | <u>(141,742)</u>    | <u>62,093</u>       |
|  | <u>\$ 2,312,969</u> | <u>\$ 2,034,315</u> | <u>\$ 2,210,362</u> |

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

|  | SECOND<br>QUARTER<br>2021<br>(\$000s) | SECOND<br>QUARTER<br>2020<br>(\$000s) | YTD<br>JUNE 30<br>2021<br>(\$000s) | YTD<br>JUNE 30<br>2020<br>(\$000s) |
|--|---------------------------------------|---------------------------------------|------------------------------------|------------------------------------|
| <b>Revenue</b>   |                                       |                                       |                                    |                                    |
| Assessments  | \$ 87,113                             | \$ 67,610                             | \$ 162,110                         | \$ 142,328                         |
| Investment Income (loss)   | 92,993                                | 162,119                               | 92,937                             | (5,532)                            |
|  | <u>180,106</u>                        | <u>229,729</u>                        | <u>255,047</u>                     | <u>136,796</u>                     |
| <b>Expenses</b>  |                                       |                                       |                                    |                                    |
| Claims costs incurred  |                                       |                                       |                                    |                                    |
| Short-term disability  | 15,364                                | 11,394                                | 29,026                             | 23,578                             |
| Long-term disability   | 24,585                                | 24,661                                | 51,047                             | 48,209                             |
| Survivor benefits  | (25)                                  | 8                                     | 500                                | 693                                |
| Health care  | 16,860                                | 12,854                                | 31,155                             | 27,890                             |
| Rehabilitation   | 228                                   | 207                                   | 382                                | 416                                |
|  | <u>57,012</u>                         | <u>49,124</u>                         | <u>112,110</u>                     | <u>100,786</u>                     |
| Growth in present value of benefits liabilities and actuarial adjustments and adjustment for latent occupational disease | 38,269                                | 45,429                                | 72,482                             | 65,467                             |
| Administration costs   | 15,759                                | 14,543                                | 30,025                             | 29,021                             |
| System support   | 252                                   | 249                                   | 503                                | 499                                |
| Legislated obligations   | 4,647                                 | 4,017                                 | 9,422                              | 8,601                              |
|  | <u>115,939</u>                        | <u>113,362</u>                        | <u>224,542</u>                     | <u>204,374</u>                     |
| Excess of revenues over expenses (expenses over revenues) applied to increase (decrease) the funded position             | <u>64,167</u>                         | <u>116,367</u>                        | <u>\$ 30,505</u>                   | <u>\$ (67,578)</u>                 |

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

|  | SECOND<br>QUARTER<br>2021<br>(\$000s) | SECOND<br>QUARTER<br>2020<br>(\$000s) | YTD<br>JUNE 30<br>2021<br>(\$000s) | YTD<br>JUNE 30<br>2020<br>(\$000s) |
|--|---------------------------------------|---------------------------------------|------------------------------------|------------------------------------|
| <b>Funded (Unfunded) position excluding accumulated other comprehensive income</b>                           |                                       |                                       |                                    |                                    |
| Balance, beginning of period   | \$ 28,431                             | \$ (258,109)                          | \$ 72,516                          | \$ (66,962)                        |
| Excess of revenues over expenses (expenses over revenues) applied to increase (decrease) the funded position | <u>64,167</u>                         | <u>116,367</u>                        | <u>30,505</u>                      | <u>(67,578)</u>                    |
|  | <u>92,598</u>                         | <u>(141,742)</u>                      | <u>103,021</u>                     | <u>(134,540)</u>                   |
| <b>Accumulated other comprehensive income</b>  |                                       |                                       |                                    |                                    |
| Balance, beginning of Year   | -                                     | -                                     | (10,423)                           | (7,202)                            |
|  | <u>-</u>                              | <u>-</u>                              | <u>(10,423)</u>                    | <u>(7,202)</u>                     |
| <b>FUNDED POSITION, END OF PERIOD</b>  | <u>\$ 92,598</u>                      | <u>\$ (141,742)</u>                   | <u>\$ 92,598</u>                   | <u>\$ (141,742)</u>                |



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

|   | <b>JUNE 30<br/>2021<br/>(\$000's)</b> | <b>JUNE 30<br/>2020<br/>(\$000's)</b> |
|---|---------------------------------------|---------------------------------------|
| <b>Operating Activities</b>                                       |                                       |                                       |
| Cash received from:   |                                       |                                       |
| Employers, for assessments  | \$ 174,337                            | \$ 151,877                            |
| Investment Income (loss)  | <u>11,516</u>                         | <u>(3,444)</u>                        |
|   | 185,853                               | 148,433                               |
| <br>Cash paid to:   |                                       |                                       |
| Claimants or third parties on<br>their behalf                     | (128,141)                             | (126,428)                             |
| Suppliers, for administrative<br>and other goods and services     | <u>(35,331)</u>                       | <u>(30,794)</u>                       |
|   | (163,472)                             | (157,222)                             |
| <br><b>Net cash provided (used in) operating activities</b>       | <br><u>22,381</u>                     | <br><u>(8,789)</u>                    |
| <b>Investing Activities</b>                                       |                                       |                                       |
| (Decrease) increase in investments, net                           | (11,137)                              | 3,929                                 |
| Cash paid for:  |                                       |                                       |
| Purchase of equipment and intangible assets                       | <u>(527)</u>                          | <u>(940)</u>                          |
| <br><b>Net cash (used in) provided by investing activities</b>    | <br><u>(11,664)</u>                   | <br><u>2,989</u>                      |
| <br><b>Net increase (decrease) in cash and cash equivalents</b>   | <br><u>10,717</u>                     | <br><u>(5,800)</u>                    |
| (Bank indebtedness), cash and cash equivalents, beginning of year | <u>(2,740)</u>                        | <u>11,082</u>                         |
| <br><b>Cash and cash equivalents, end of period</b>               | <br><u>\$ 7,977</u>                   | <br><u>\$ 5,282</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 June 30, 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 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 15<sup>th</sup> 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 15<sup>th</sup> 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).

## **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