

# **2025 Funding Strategy**

With funding projections 2025-2029

## Table of Contents

|                                                 |    |
|-------------------------------------------------|----|
| Executive Summary .....                         | 3  |
| Background .....                                | 5  |
| Foundation Scenario for 2025 .....              | 6  |
| Recent Financial Results .....                  | 7  |
| Future Claims Costs and Potential Savings ..... | 8  |
| Factors Considered .....                        | 10 |
| Rationale for Key Assumptions.....              | 11 |
| Key Areas of Uncertainty.....                   | 13 |

Appendix A            2025 – 2029 Financial Projections

Appendix B            Current Funding Strategy and Assumptions

## Executive Summary

Funding of the Workplace Safety and Insurance System (WSIS) requires consideration of a number of complex variables and assumptions relating to future events. This creates significant uncertainty and limits our ability to accurately predict future funded ratios precisely. As a result, we recommend these estimates be viewed as potential funding levels with room for potential variances.

The WCB's funding strategy is the primary instrument for capital management and provides the support for rate setting purposes. The funding strategy considers assumptions about revenue from the covered workforce payroll base, operational results and investment returns. In line with the strategic priorities, the funding strategy assumes a growing economy, long-term investment return expectations from a diversified portfolio and stabilized claims costs for a financially sustainable system. The WCB collects premiums from employers to pay the benefits resulting from workplace injuries that occurred in the year. Additionally, the WCB must maintain sufficient invested assets to cover the growth in the benefits liability for benefits awarded in the past.

On a funding basis, the WCB's financial position improved in 2023, primarily attributed to growth from insurance revenue and investment performance, and partially off-set by unfavourable actuarial experience adjustments related to long term benefits. In summary, at 93.8% funded, assets do not exceed liabilities. The current funding strategy includes:

- The average assessment rate utilized to establish employer rates is proposed to be held at \$2.65/\$100 of payroll in 2025.
- The funded ratio is projected to improve to 96.4% at the end of 2024 and to 99.2% by the end of 2025.

Effective January 1, 2023, a new international accounting standard - IFRS 17 Insurance Contracts was mandated for all insurance companies and workers' compensation boards in Canada. Though the economic fundamentals of workers' compensation boards are not changing, there were changes to how insurance revenue and liabilities were recognized and presented in the financial statements. The new standard requires the use of discount rates 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. WCB operations differ substantively from a commercial insurance model for which IFRS 17 was intended and on which the standard is based.

Therefore, based on the economic and business fundamentals, the long-term expected return on assets will continue to be utilized for funding and setting employer rates. Under the funding basis, liabilities are measured on a going-concern basis, using the expected long-term return on the assets backing the liabilities as the discount rate. All of the financial information contained in this document will be discussed on the funding basis.

In 2023, a new Approved Rate Range (ARR) framework was approved by the Board of Directors to enable the system to consider necessary changes, and balance those changes with the principle of long-term sustainability. The ARR framework defines the funding level where changes can be made sustainably and sets upper and lower thresholds for the system's funded percentage to guide when adjustments are made to the average assessment rate for employers or recommendations made to

Government to improve benefits for workers. The ARR framework ensures long-term system sustainability so we can continue to deliver more value to workers and employers while ensuring a financial imbalance never happens again.

The average assessment rate is proposed to be held at \$2.65/\$100 of payroll in 2025. This is supported by:

- The funded ratio is low and too close to the bottom of the ARR threshold. Any deterioration in the current funded ratio of 93.8%, could take the WCB below the 90% threshold and potentially generate a rate increase. Every \$24 million variance from plan represents approximately 1% to the funded ratio – for example: higher benefits costs or lower investment returns than assumed in the strategy could impact the funded ratio materially and swiftly below 90%.
- Uncertainty in benefit costs with the new gradual onset psychological injury legislation effective September 1, 2024. Recent experience with traumatic psychological injuries shows that previous estimates of annual claims costs were not sufficient to cover the actual cost of these complex injuries. This led to significant actuarial experience adjustments in the last number of years.
- Financial gains / losses can occur when revenue is greater/less than expected and/or costs are lower/higher than expected. The probability of exceeding cost savings targets is currently considered low given the current economic environment - inflation is still above the long-term Bank of Canada target of 2% which increases costs in the WCB system. Large gains or losses could occur due to investment market volatility within any given year and have significant impact on the funded ratio. For example, in March 2020, after significant investment market declines the funded ratio was 88%, and following market rebounds, the end of year result was a funded ratio of 102.9%. Similarly, in 2022, the Accident Fund decreased to 92.1% funded from 106.4% in 2021. These wide fluctuations in investment returns and actuarial adjustments demonstrate how results can vary over a short period of time and the impact this can have on the funded ratio.
- Other factors considered include the system review in progress.

The reality is that there will always be annual variability in the funded ratio. We continue to work toward strengthening our financial position and recognize that workers and employers have waited a long time for system reform.

Annual revisions to the funding strategy are required to reflect actual experience and changes in assumptions. A foundation scenario is used to prepare the financial projections and is the basis of the discussion here and is included in Appendix A.

The 2025 foundation scenario includes overall provisions for growth in the workforce/revenue and meeting long term investment returns. It also reflects for improvements in claims costs via prevention and return to work initiatives and offsetting allowances for increases in annual claims costs incurred to reflect the impact of inflation, increasing wages, and psychological injury that can significantly challenge return to work.

The estimated impact of these increased revenues and the targeted improvements in injury prevention and return to work is expected to improve the funded ratio to 96.4% at the end of 2024. And by the end of 2025, a funded ratio of 99.2%.

As we move forward, we must take a long-term view to maintain sustainable funding into the future.

## Background

The Workers' Compensation Act passed in the spring of 1995 makes specific reference to the Workers' Compensation Board funding requirements. The Act mandates the WCB to make an assessment on and collect from employer's sufficient funds to cover the current and future claims and administrative costs of all injuries occurring in the year.

These requirements give the WCB guidance for funding and budgeting decisions on an annual basis. The funding strategy incorporates this foundational guidance and other key assumptions into a financial model with an underlying goal of modelling financial sustainability into the future.

Investment income is a key component of the funding strategy. The general premise is that invested assets will generate sufficient income to cover the growth in the benefits liability. While it is a key component, it is also a key source of variability. In the shorter term we have seen fluctuation from our long-term assumption of 6.0% for investment returns; however, over time the assumption has generally aligned with actual experience. In 2023, the portfolio returned 7.7% following a negative return in 2022. The annualized 10-year return as of December 2023 was 5.7%. On balance, for the period 1995 to 2023, investment returns averaged 6.5% per annum; exceeding our long term assumption of 6.0 per cent. Over the last 20 years, investments returns averaged 5.7% annually.

Going forward, it will be important to strengthen our financial position and mitigate the risk of uncertainty related to payroll, benefits and investment returns. The original funding strategy was developed in December 1995 and anticipated elimination of the unfunded liability in 2039. Since that time, new and enhanced entitlements for chronic pain, supplementary benefits, traumatic psychological injuries, and firefighter cancer added hundreds of millions of dollars to the liability. The reinstatement of survivor benefits, changes to accounting policies and the inclusion of an allowance for latent occupational disease and an updated study in 2022 are also among the changes to benefit costs. In 2024 the costs related to new gradual onset psychological injury legislation will have effect.

While there were challenges, we also experienced economic growth to a larger scale than expected leading to covered payroll in recent years that exceeded original estimates. Overall, elimination of the unfunded liability occurred years sooner than expected. Financial progress over the past several years has been encouraging; however, there are many factors that can influence the funding strategy. At the end of 2023, liabilities exceeded assets with a funded ratio of about 93.8% (in 2020 and 2021 assets exceeded liabilities for the first time in decades). This demonstrates how quickly the funded ratio can change between funded to unfunded when assets and liabilities are nearly equal. The long-term impacts of the global pandemic, ongoing unrest in Europe, and continuing higher inflation could continue to impact investment returns and economic conditions.

To a large extent, the funding period was used to absorb variations between financial projections and

actual results. This approach allowed us to meet a key objective of maintaining a plan to eliminate the unfunded liability while providing relative stability in assessment rates and benefits paid to injured workers.

## Foundation Scenario for 2025

For 2025, the foundation scenario incorporates recent results and assumptions on future performance. The workforce and payroll have grown in Nova Scotia, 10% in 2023 amid high inflation and increased wages. The size of the workforce will impact both time loss claims and payroll and is projected to grow at 2.5% in 2024 - 25 while increased wages projected at 3% will impact both payroll and benefit costs. This is forecasted to normalize in the model to more traditional levels post 2025. For purposes of the funding strategy, the model assumes investments will earn 6.2% in 2024 – 25 to smooth investment losses of 2022 and 6.0% over the longer term of the strategy.

The target for total revenues for 2025 is \$624.3 million based on:

- a projection for insured firms' assessable payroll of \$16.9 billion, yielding assessment revenue of \$449.1 million,
- investment income of \$167.7 million, and
- revenue from self-insured employers of \$7.5 million (administration fee).

In 2025, comprehensive income of \$77.1 million will reduce the unfunded liability, improving the funded ratio to 99.2%. This results from the total revenue target of \$624.3 million minus

- claim costs of \$296.9 million (insured claims),
- the growth in present value of the benefits liability of \$139.4 million,
- estimated administrative costs of \$87.5 million,
- adjustment for future administration costs reducing liabilities by \$2 million , and
- legislated obligations and system support of \$25.4 million.

Additional key projection assumptions made in the funding strategy for 2024 and onward include:

- Gross interest rate of 5.5% per annum (same as the previous year).
- Net Investment return of 6.0%, smoothed over ten years.
- Consumer Price Index (CPI) long term Bank of Canada of 2%.
- Continued progress on savings targets arising from investments in prevention, return to work and exceptional service.
- Administrative costs growing for collective bargaining, positions and technology positioned to meet strategic plan targets.
- therefore assume wage growth and increases in covered payroll will continue to generate payroll growth approximating CPI plus 1%; consistent with the rate of growth expected on wage related benefits.
- Average assessment rate is \$2.65, reviewed annually through the approved rate range framework.
- A limitation of the funding strategy model is that it does not fully reflect the likely changes in the estimated liability that will accompany planned reductions in the cost structure.

## Recent Financial Results

The operating results for 2023 and 2022 (restated) are attributed to the following factors:

|                                                                               | <b><u>2023</u></b><br><b><u>(000's)</u></b> | <b><u>2022</u></b><br><b><u>Restated</u></b><br><b><u>(000's)</u></b> |
|-------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------------------------------|
| Assessment revenue in excess of current year costs                            | \$69,621                                    | \$46,090                                                              |
| Investment income above (below) liability requirements*                       | 12,936                                      | (284,086)                                                             |
| Actuarial liabilities and adjustments (more) less than previously anticipated | (43,421)                                    | (117,348)                                                             |
| Re-measurement of employee benefits                                           | (2,362)                                     | 8,335                                                                 |
| Total comprehensive income (loss)                                             | <u>\$36,774</u>                             | <u>\$(347,009)</u>                                                    |

\* Surplus (Shortfall) of investment income relative to growth in present value of the benefits liabilities.

The total comprehensive income in 2023 is primarily related to investment returns delivering a 7.7 % and insurance revenue greater than planned - increasing by more than 10% (2022 10%). This was partially offset by unfavourable actuarial experience adjustments.

In workers' compensation, assessment revenue should roughly equal current year costs, otherwise transfers to or from future or past employers are occurring. However, preserving the financial stability requires mitigation strategies including a continued stabilization charge on rates. Approximately \$0.43 (2023) of the assessment rate was set aside to absorb the shortfall between investment income and the growth in the benefits liability, unfavourable actuarial experience adjustments, and to support improving the WCB's funded ratio. The \$0.43 was more than expected, as this is primarily related to the higher than expected payroll base in 2023. If targeted performance indicators and investment returns are achieved as expected, \$0.28 of the assessment rate will be used to stabilize the funded ratio in 2025. The decisions we make now are important not only for the employers we cover today, but for generations in the future.

In a system with a funded liability, investment income should be expected to equal liability requirements. That is, the invested funds should increase at a rate equal to the increase in the liability. In 2023, investments gained some ground and covered the liability requirement by \$12.9 million. There is a need to continue to make up the investment loss from 2022 through higher returns of 6.2% over the next five years resulting in an average of 6.0% over a ten year period.

## Future Claims Costs and Potential Savings

The WCB's Strategic Plan for 2024-2030 set ambitious targets for bettering the system with a focus on injury prevention, return to work improvements and providing exceptional service. It ensures long-term system sustainability so we can continue to deliver more value to workers and employers while ensuring a financial imbalance never happens again. Real changes in claims costs incurred, excluding inflation, are required. The funding strategy links to targets set in the strategic plan.

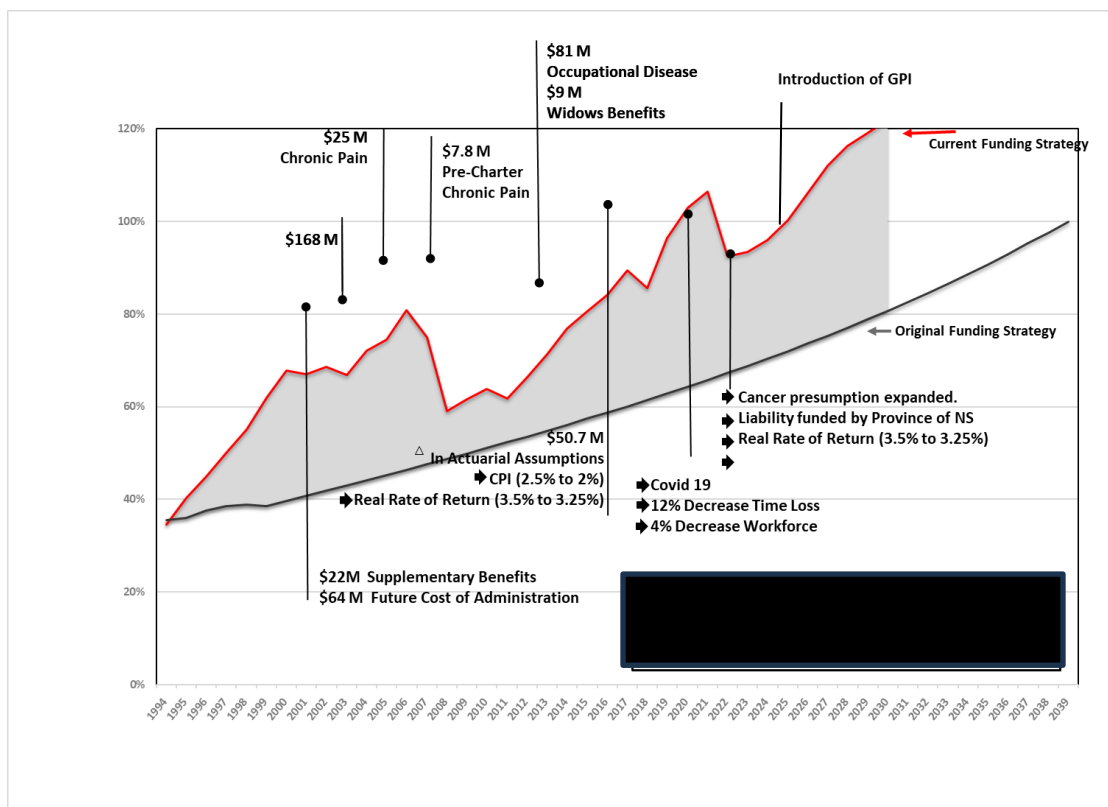
Time-Loss Days Paid per 100 Covered Employees with substantially improved outcomes and assumes improvements will continue in 2025, decrease to 179 days by the end of 2029 (from 259 in 2023). Over time, the portion of the rate used to cover current year benefit costs is expected to decrease from \$1.76 in 2025 to \$1.72 in 2029. The targeted outcomes will be achieved through a continued focus on prevention and return to work including specialized programs to improve outcomes on traumatic psychological injuries.

The administrative and legislated obligations portion of the rate is expected to increase \$0.01 to \$0.61 as a result of resource investments in 2025 to prepare to manage psychological injury claims and positioning to meet the strategic plan targets and decreasing to \$0.57 in 2029.

The foundation scenario currently reflects a combined cost of claims and administration of \$2.37 for 2025, gradually decreasing to \$2.29 in 2029. The probability of achieving these estimates will be significantly improved based on the resource investments being made. As per the current version of the plan, the excess available to improve the funded ratio in 2025 will be \$0.28. With a rate of \$2.65, the excess available in 2029 is estimated to \$0.36.

Real changes in claims costs incurred, excluding inflation, may result from the following factors:

1. **The benefit structure** contained in the Workers' Compensation Act, which is the governing legislation. Court decisions, legislative reviews, emerging issues and resulting legislation periodically change coverage. For example, in 2003, a court decision relating to chronic pain benefits had a significant impact on the unfunded liability and on the estimated claims costs incurred for current and future years. In 2013, legislation was introduced to extend additional retroactive benefits to survivors whose benefits were terminated upon remarriage. These and other changes that have increased the benefits liabilities are chronicled below:



2. **Actuarial and accounting standards** for reporting liabilities of Workers' Compensation Benefits. In 2013, the Actuarial Standards Board adopted a new standard of practice requiring an estimation of liabilities for occupational disease during the latency period. In prior periods, the liability only included an amount for occupational disease confirmed through diagnosis. This change had a significant impact on the benefits liabilities and, to a lesser extent, on the claims cost incurred.
3. **The number and severity of injuries**, which occur in work places across the province. This is normally correlated with the real growth in the economy but also reflects to some degree the shift between different sectors of the economy. This is important, as certain sectors are subject to more workplace injuries than other sectors. In addition, there is an ongoing increase in the type of injuries from physical to psychological in nature, in addition to traumatic psychological injury, compensability of gradual onset psychological injury becomes effective September 1, 2024. In order for the WCB to achieve the targeted results, it is critical that work places across the province embrace prevention and return to work and work with the WCB to improve claim outcomes and have psychologically safe workplaces.
4. **Administrative processes** can have a significant impact on claims costs incurred, primarily due to changes in the way that claims are administered. For example, the WCB's early engagement philosophy is anticipated to reduce claims costs incurred over time by shortening durations for the average claim and reducing the number of claims going on to long term disability. However, this philosophy of increased early support and additional investments to lead these initiatives has increased costs as we look more broadly to

determine how we might assist injured workers to return to work in a safe and timely manner. These expenses are intended to reduce overall costs by helping injured workers return to work.

5. **Long Term Awards (EERBs).** As mentioned in prior years and annual reports, the pace of long term awards remained high over the past number of years. As we work through complex and older claims and bring to conclusion a number of traumatic psychological injury claims, the increased volume of long term awards will continue to generate unfavourable experience adjustments, anticipated to decrease to expected levels in 2025. The increasing incidence of traumatic psychological injuries and legislative change around gradual onset psychological stress could generate a permanent increase in long term awards in future years. This will be reviewed with our external actuary as we gain more experience with these claims. The potential to reduce long term benefit costs seems reasonable and achievable given Nova Scotia's experience relative to other jurisdictions. In 2022, the number of injured workers receiving wage loss benefits six years after the injury was the highest among all the provinces in Canada, (the most recent metric available for Canada).

## Factors Considered

Funding of the Workplace Safety and Insurance System (WSIS) reflects the balance struck between the level of benefits, rates charged to employers and the WCB's funding position.

When financial results were different than the target, whether better or worse, there were three possible courses of action: adjust benefits to workers, adjust rates paid by employers or increase or decrease the time period over which the unfunded liability is to be eliminated. As the level of benefits is set by the Legislature, subject to interpretation by the Courts, the funding equation is not entirely within the control of the WCB as the neutral administrator.

Many of the variables that influence the funding plan, such as CPI, economic activity and investment returns, are outside the control of the WCB and can be subject to significant variability. While we make every effort to provide reasonable estimates, there are times when extraordinary events can occur that can have a significant impact on the funding plan.

Factors to consider when constructing a strategy to achieve financial sustainability:

1. **Stability** – the current model is built on the premise that regardless of the rate strategy selected, employers prefer to have some certainty and a long term outlook with respect to the direction rates are heading as opposed to a significant amount of volatility.
2. **Competitiveness** - at more than 2.5% of payroll, Nova Scotia rates are viewed as the highest rates in the country while providing among the lowest benefits to individuals. However, this is only part of the story as comparisons do not take into account key differences across jurisdictions. For example, Nova Scotia covers 75% of the payroll base and this results in a higher rate than those that provide universal coverage. It is also worth noting that in some industries, Nova Scotia actually has the lowest rates in Canada.

3. Policy in the context of an unfunded liability – the existence of a large unfunded liability tended to have a dramatic impact on any significant policy or financial initiative of the WCB or the Legislative Assembly when considering new legislation. The WCB's updated Strategic Plan for 2024-2030 includes strategic considerations for system reforms that may result in benefit enhancements and rate reductions. This will likely result in fluctuations in the funding ratio and will make negative economic downturns more difficult to recover from all else equal.
4. Intergenerational transfers – when the unfunded liability is eliminated once and for all, intergenerational transfers between employers can be limited if strategies are adopted to mitigate the risk of falling outside specified funding ranges in future years.
5. Security - the potential for liabilities to exceed assets in future will call into question the sustainability of the fund and the security of future benefits. The Approved Rate Range is a tool to mitigate this risk.

## **Rationale for Key Assumptions**

A key point to emphasize throughout the discussion of the estimates used in establishing the funding strategy is the interdependence of various assumptions.

In some cases, the relationship between two or more assumptions plays a more significant role in the projections than the choice of individual assumptions. For example, when determining the assessment rate required to fund the cost of future injuries, it is the relationship between the rate of claims cost increase and assessable payroll growth rate that is more important than either of the individual rates. Therefore, it is important to take care in setting both individual assumptions and the relationships among the various assumptions.

The rationale for the various assumptions proposed is as follows:

### **1. Consumer Price Index Assumption**

Based on an analysis of CPI using a running 10-year, 20-year and 30-year average, and the Bank of Canada forecasts, the long term assumption for CPI is 2.0%.

The long term assumption of 2.0% is considered the most relevant for the Workers' Compensation Board's long term financial planning, as we are primarily concerned with specific components of inflation; wages and health care costs, rather than the general inflation rate. We will monitor the economic forecasts for long term inflation.

### **2. Claims Costs Incurred**

The original funding strategy assumed claims costs incurred would grow at the rate of inflation (CPI) except for health care costs which would grow at CPI plus 0.5%. Our assumptions changed over the years to reflect experience, health care costs will grow at CPI plus 2.25% with all other benefits growing at CPI + 1%.

### **3. Assessable Payroll**

In Nova Scotia over the 40-year period of 1983 to 2023, claims costs incurred and administration costs have grown at a compound rate of 6% while assessable payroll has grown at 4%. While the administration budget did grow in the period, the main source of increase in Nova Scotia was claims costs; a result of the implementation of the new earnings loss system in 1996.

In order to grow our funded ratio, the trend of growth in costs exceeding growth in payroll in Nova Scotia must reverse. Targeted reductions in the frequency and duration of claims will have to materialize in order to achieve this goal.

The Average Assessment Rate Table in Appendix A indicates the importance of the relationship between the rate of growth of claims costs incurred and assessable payroll. If payroll and costs grow as expected, the average rate for current year costs is expected to be at \$2.29 in 2030; a reduction from the 2025 cost of \$2.37.

### **4. Real Rate of Return**

The funding strategy has a real rate of return assumption of 3.50% in 2023, consistent with 2022. Analysis indicates that 3.50% is a realistic real rate of return based on current portfolio and is comparable with other jurisdictions and the Canadian national average. The real rate of return coupled with our long term CPI assumption of 2.0%, yields a nominal rate of 5.50%. Changes in these assumptions can significantly impact the liabilities of the accident fund.

### **5. Investment Returns**

Investment market volatility can create significant fluctuations in reported income in any given year. For financial statement reporting purposes all realized and unrealized gains and losses are recorded directly into income. For purposes of the funding strategy, the WCB believes smoothing of investment returns more appropriately captures our long term expectations.

Our approach is to estimate investment income based on a pattern that will yield a nominal rate of return approximating 6.0% over time. In 2020 we contracted Mercer to conduct an asset liability study to assess the probability of this return as related to funded ratio where assets equal liabilities. An integral part of the study was centered on expected investment returns.

### **6. Mortality**

The mortality assumption that underlies the calculation of liabilities and claims costs incurred for long-term disability and survivors' pensions will also influence the projections. The 2023 benefits liability valuation utilizes the 1983 Group Annuitant Mortality Table (with 10% margin) as the basis underlying liabilities under those categories for which a mortality assumption has been made. There are newer versions of

the Group Annuitant Mortality Table and it is prudent to review the reasonableness of the mortality assumption from time to time. Given the general trend over recent years to increased life expectancies, it is possible that future valuations will feature actuarial adjustments in respect of mortality. Such adjustments, in the absence of other offsetting adjustments, would lead to increases in both liabilities and claims costs incurred projections. However, the magnitude of such adjustments would be small (less than 1% of benefits liabilities) as the largest component of long term disability costs relates to extended earnings replacement benefits payable to age 65. The current table assumes virtually all earnings loss award recipients will collect benefits until age 65. A change in the group annuitant mortality table will therefore impact only the costs associated with permanent impairment awards which are becoming a smaller portion of total long term disability costs.

## **Key Areas of Uncertainty**

There are key areas of uncertainty that the WCB considers when it deliberates with respect to the funding strategy. Some of these areas of uncertainty include:

### **1. Changes in the Provincial Economy**

A combination of factors including the Conference Board of Canada projections were used to estimate the size of the Nova Scotia workforce for the next several years. In 2023, the workforce increased by 7.4% and is well above pre-pandemic levels. In 2024 and 2025, we have assumed additional growth in the workforce of 2.5% (up from 0.5% historical rate) along with a 3% increase in average wages. A significant variance from this assumption would have a material impact on the plan.

### **2. Long Term Disability Costs**

The plan includes a series of assumptions around reductions in costs available through improvements in durations and return to work outcomes. Beyond the savings noted, no other provisions have been made to claims costs incurred or the benefits liability that may result from actual experience in earnings loss.

### **3. Legislative Framework/Reform/System Review**

The claims costs incurred side of the funding equation is driven primarily by legislative decisions with respect to benefit levels. The March 2002 report titled “The Nova Scotia Workers’ Compensation Program, A Focused Review” (The Dorsey Report) contained recommendations for program enhancements. There is currently a system review and any changes, are not considered in the foundation scenario.

### **4. Inflation**

The Workers’ Compensation Act prescribes a partial indexing formula to be applied to clinical rating system (CRS) pensions, permanent impairment benefits (PIB), and extended

earnings replacement benefits (EERB). Due to partial indexing, CPI increases that differ from the long term assumption represent a risk to the accident fund. This occurs because inflationary increases to benefits are calculated at 50% of CPI. If CPI is higher than expected, the gap between actual CPI and the indexing applied to benefits is larger resulting in lower than expected increases to the benefits liability. If CPI is lower than expected, the difference between actual CPI and the amount of indexing applied to benefits is smaller and would therefore result in higher than expected increase in the benefits liabilities.

## **5. Coverage for New Conditions**

The cost estimates assume that there will be no change in the WCB's policy, practice, or experience and that there will be no coverage for new conditions. Any provision for new benefit costs flowing from judicial decisions, legislative amendments, and/or changes in WCB policy except as expressly noted in this document will require revisions to the funding strategy. For example, entitlement for gradual psychological injury may require further revision to the funding strategy as experienced with actual results are known.

## **6. Financial Reporting Standards**

The financial statements of the WCB are prepared in accordance with International Financial Reporting Standards (IFRS) for publicly accountable entities. Two of the more significant standards that impact the WCB include accounting for investments and liabilities recorded at market value.

Since 2004, the WCB has recorded investments at market value. The adoption of IFRS in 2011 had no impact on net income. However, the recording of unrealized gains now flows directly into investment income rather than through other comprehensive income.

IFRS standard17 – Insurance Contracts requires that liabilities be recorded at fair market value beginning in 2023. This standard has material impacts for the WCB's financial reporting by introducing new recognition and measurement approaches for insurance revenue and liabilities introduces volatility to the funded ratio as a result of use of a market based discount rate. At the end 2023, this decreases the financial statement funded ratio from 93.8% to 89.5% on an FRS 17 reporting basis.

In order to foster stable rates and align with the Board's investment strategy, the WCB will continue to use the going concern funding measure of its liabilities in the funding strategy for planning and rate setting purposes.

Although the Funding Strategy clearly labels assumptions as such, many users may credit the strategy with more certainty and precision than warranted given the number and nature of assumptions it contains. Users are reminded that the Funding Strategy is our best estimate of what will happen given the assumptions. As noted in previous Annual Reports and the Funding Strategy, actual results will differ from the projections and these differences may be material.

# Appendix A

2025 – 2029 Financial Projections

## Appendix A

### 2024 - 2029 Financial Projections

#### Workers' Comensation Board of Nova Scotia Projected Statement of Operations

|                                                        | 2023<br>Actual  | 2024<br>O. Budget | 2024<br>R. Budget | 2024<br>Forecast | 2025<br>Projected | 2026<br>Projected | 2027<br>Projected | 2028<br>Projected | 2029<br>Projected |
|--------------------------------------------------------|-----------------|-------------------|-------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Revenue</b>                                         |                 |                   |                   |                  |                   |                   |                   |                   |                   |
| Assessments - Regular Classified                       | \$403,719,000   | \$406,555,000     | \$406,555,001     | \$430,760,000    | \$449,138,000     | \$462,634,000     | \$477,704,000     | \$493,265,000     | \$510,603,000     |
| Assessments - Self Insured                             | 8,239,000       | 7,500,000         | 7,500,000         | 7,500,000        | 7,500,000         | 7,725,000         | 7,957,000         | 8,195,000         | 8,441,000         |
| Investment Income                                      | 143,543,000     | 149,460,000       | 149,460,000       | 156,098,000      | 167,604,000       | 180,724,000       | 194,832,000       | 210,060,000       | 221,589,000       |
|                                                        | \$555,501,000   | \$563,515,000     | \$563,515,001     | \$594,358,000    | \$624,242,000     | \$651,083,000     | \$680,493,000     | \$711,520,000     | \$740,633,000     |
| <b>Claim Costs</b>                                     |                 |                   |                   |                  |                   |                   |                   |                   |                   |
| Growth PV of Benefits Liability                        | \$254,542,000   | \$266,817,000     | \$266,817,000     | \$275,230,000    | \$296,908,000     | \$305,549,000     | \$314,158,000     | \$322,744,000     | \$331,637,000     |
| Administration Costs *                                 | 120,203,000     | 132,445,000       | 132,445,000       | 132,751,000      | 139,389,000       | 146,358,000       | 153,676,000       | 161,360,000       | 169,428,000       |
| Liability for Future Administration Costs              | 71,043,000      | 80,262,000        | 81,662,000        | 81,662,000       | 87,536,000        | 88,690,000        | 90,510,000        | 92,460,000        | 92,341,000        |
| OCI OPEBs Actuarial Gains/Losses                       | (3,653,000)     | (2,000,000)       | (2,000,000)       | (2,000,000)      | (2,000,000)       | (2,000,000)       | (2,000,000)       | (2,000,000)       | (2,000,000)       |
| Legislated Obligations                                 | 2,362,000       | -                 | -                 | -                | -                 | -                 | -                 | -                 | -                 |
| System Support                                         | 19,260,000      | 22,741,000        | 22,741,000        | 22,741,000       | 23,911,000        | 24,389,000        | 24,877,000        | 25,375,000        | 25,882,000        |
| Actuarial Experience Adjustments                       | 1,145,000       | 1,439,000         | 1,439,000         | 1,439,000        | 1,439,000         | 1,468,000         | 1,497,000         | 1,527,000         | 1,558,000         |
|                                                        | 53,825,000      | -                 | -                 | 20,000,000       | -                 | -                 | -                 | -                 | -                 |
|                                                        | \$518,727,000   | \$501,704,000     | \$503,104,000     | \$531,823,000    | \$547,183,000     | \$564,454,000     | \$582,718,000     | \$601,466,000     | \$618,846,000     |
| <b>Comprehensive Income (Loss)</b>                     | \$36,774,000    | \$61,811,000      | \$60,411,000      | \$62,535,000     | \$77,059,000      | \$86,629,000      | \$97,775,000      | \$110,054,000     | \$121,787,000     |
| <i>* Excludes Total Capital</i>                        |                 |                   |                   |                  |                   |                   |                   |                   |                   |
|                                                        | 2023<br>Actual  | 2024<br>Original  | 2024<br>Revised   | 2024<br>Forecast | 2025<br>Projected | 2026<br>Projected | 2027<br>Projected | 2028<br>Projected | 2029<br>Actual    |
| <b>(Unfunded Liability) / Surplus, End of the Year</b> | (\$163,765,000) | (\$105,227,000)   | (\$163,765,000)   | (\$101,230,000)  | (\$24,172,000)    | \$62,458,000      | \$160,233,000     | \$270,287,000     | \$392,074,000     |
| <b>Funded Ratio, End of the Year</b>                   | 93.8%           | 96.2%             | 93.8%             | 96.4%            | 99.2%             | 102.0%            | 105.0%            | 108.0%            | 111.0%            |

#### Notes:

- 1) The average assessment rate used to calculate revenue is \$2.65 through 2029.
- 2) It is important to note that these cost estimates assume that there will be no change in the WCB's policy, practice, or experience and that there will be no coverage for new conditions. Any provision for new benefit costs flowing from judicial decisions, legislative amendments, and/or changes in WCB policy except as expressly noted in this document will require revisions to the funding strategy.
- 3) The Statement of Operations reflects the administrative expenses net of an adjustment for the liability for future administrative expenses. This adjustment is approximately 6% of the difference between claims costs incurred (CCI) and claims payments made (CPM).
- 4) Based on administrative budget assumptions and funding strategy projections. (Funding Strategy - May 2024).
- 5) As of January 1, 2018 the WCB has adopted IFRS 15 as related to revenue recognition. The change impacts revenue and claims costs incurred for Self-insured employers. In previous years, reported revenue included amounts billed to self-insured firms to reimburse claim costs. Beginning in 2018, neither the claims costs nor the offsetting revenue will be reflected in the statement of operations. Only the administration fee billed to Self-insured employers will be recorded as revenue in 2018 and future years.

## 2024 - 2029 PROJECTION ASSUMPTIONS AVERAGE ASSESSMENT RATE

|             | <u>Claims Cost<br/>Incurred<br/>and Admin</u> | <u>Shortfall* and<br/>Unfunded<br/>Liability</u> | <u>Total</u>  |
|-------------|-----------------------------------------------|--------------------------------------------------|---------------|
| <b>2023</b> | <b>\$2.20</b>                                 | <b>\$0.43</b>                                    | <b>\$2.63</b> |
| <b>2024</b> | <b>\$2.31</b>                                 | <b>\$0.34</b>                                    | <b>\$2.65</b> |
| <b>2025</b> | <b>\$2.37</b>                                 | <b>\$0.28</b>                                    | <b>\$2.65</b> |
| <b>2026</b> | <b>\$2.35</b>                                 | <b>\$0.30</b>                                    | <b>\$2.65</b> |
| <b>2027</b> | <b>\$2.34</b>                                 | <b>\$0.31</b>                                    | <b>\$2.65</b> |
| <b>2028</b> | <b>\$2.32</b>                                 | <b>\$0.33</b>                                    | <b>\$2.65</b> |
| <b>2029</b> | <b>\$2.29</b>                                 | <b>\$0.36</b>                                    | <b>\$2.65</b> |

\* Shortfall in investment income relative to the growth in present value of the benefits liability.

# Appendix B

## Current Funding Strategy and Assumptions

## Appendix B

### Current Funding Strategy & Assumptions

Rate of \$2.65

Administration and Legislated Obligations Projections 2024-2029

Payroll Growth (Per Target Assumptions)

Claims Cost Incurred and Investment Income -Per Target Assumptions

Workers' Compensation Board of Nova Scotia

\$ 2.65

| Calendar Year | Total Assessment Rate | Assessable Payroll (\$millions) | Total Revenue (\$millions) | Assessment Revenue (\$millions) | Assessment Penalties (\$millions) | Self Insured Admin Fee (\$millions) | Investment Revenue (\$millions) | Recognized Inv Revenue (\$millions) | Smoothing of Investments (\$millions) | Gross Interest Rate | Recognized Interest Rate | Admin & Leg. Obl. (\$millions) | Change in OCI Post-Employment Benefits 2012... |
|---------------|-----------------------|---------------------------------|----------------------------|---------------------------------|-----------------------------------|-------------------------------------|---------------------------------|-------------------------------------|---------------------------------------|---------------------|--------------------------|--------------------------------|------------------------------------------------|
| 2019          | 2.66                  | 11,673                          | 565.514                    | 311.847                         | 0.841                             | 7.352                               | 245.474                         | 245.474                             | 0.00                                  | 5.25%               | 6.00%                    | 77.661                         | (4.495)                                        |
| 2020          | 2.68                  | 11,677                          | 497.223                    | 305.822                         | 0.009                             | 8.108                               | 183.284                         | 183.284                             | 0.00                                  | 5.25%               | 6.00%                    | 77.606                         | (3.221)                                        |
| 2021          | 2.60                  | 12,693                          | 552.696                    | 334.618                         | 0.000                             | 7.777                               | 210.301                         | 210.301                             | -                                     | 5.25%               | 6.00%                    | 82.163                         | 10.420                                         |
| 2022          | 2.60                  | 13,906                          | 265.227                    | 432.689                         | 0.000                             | 7.801                               | (175.263)                       | (175.263)                           | -                                     | 5.50%               | 6.00%                    | 81.272                         | 8.335                                          |
| 2023          | 2.63                  | 15,318                          | 555.501                    | 403.719                         | 0.000                             | 8.239                               | 143.543                         | 143.543                             | -                                     | 5.50%               | 6.00%                    | 87.795                         | -2.362                                         |
| <b>2024</b>   | <b>2.65</b>           | <b>16,093</b>                   | <b>594.358</b>             | <b>430.760</b>                  | <b>0.000</b>                      | <b>7.500</b>                        | <b>156.098</b>                  | <b>156.098</b>                      | <b>5.00</b>                           | <b>5.50%</b>        | <b>6.00%</b>             | <b>103.842</b>                 |                                                |
| <b>2025</b>   | <b>2.65</b>           | <b>16,907</b>                   | <b>624.242</b>             | <b>449.138</b>                  | <b>0.000</b>                      | <b>7.500</b>                        | <b>167.604</b>                  | <b>167.604</b>                      | <b>5.00</b>                           | <b>5.50%</b>        | <b>6.00%</b>             | <b>110.886</b>                 |                                                |
| 2026          | 2.65                  | 17,458                          | 651.083                    | 462.633                         | 0.000                             | 7.725                               | 180.724                         | 180.724                             | 5.00                                  | 5.50%               | 6.00%                    | 112.547                        |                                                |
| 2027          | 2.65                  | 18,027                          | 680.493                    | 477.704                         | 0.000                             | 7.957                               | 194.832                         | 194.832                             | 5.00                                  | 5.50%               | 6.00%                    | 114.884                        |                                                |
| 2028          | 2.65                  | 18,614                          | 711.520                    | 493.265                         | 0.000                             | 8.195                               | 210.059                         | 210.059                             | 5.00                                  | 5.50%               | 6.00%                    | 117.362                        |                                                |
| 2029          | 2.65                  | 19,268                          | 740.633                    | 510.603                         | 0.000                             | 8.441                               | 221.589                         | 221.589                             | -                                     | 5.50%               | 6.00%                    | 117.781                        |                                                |

Rate of \$2.65

Administration and Legislated Obligations Projections 2024-2029

Payroll Growth (Per Target Assumptions)

Claims Cost Incurred and Investment Income -Per Target Assumptions

Workers' Compensation Board of Nova Scotia

| Calendar Year | LTD (\$millions) | Cumulative Inflation Factor | Survivors (\$millions) | TERB (\$millions) | Rehab Income (\$millions) | Health Care (\$millions) | Calendar Year | Rehab Non-Inco Inflation | Rehab Non-Inco (\$millions) | Total Incurred Claims (\$millions) | Total Incurred Claims plus Admin. (\$millions) | Growth in PV of Liab (\$millions) | Adj. To Ben. Liab. (\$millions) | Estimated Liabilities (\$000s) | Estimated OCI (\$000s) | Estimated Assets (\$000s) | Gross UL -Funded (\$000's) | Net UL - Funded (\$000's) | Estimated Funded Percentage | Surplus (Deficit) From Op's (\$000's) | Total Comp. Income (\$000's) |
|---------------|------------------|-----------------------------|------------------------|-------------------|---------------------------|--------------------------|---------------|--------------------------|-----------------------------|------------------------------------|------------------------------------------------|-----------------------------------|---------------------------------|--------------------------------|------------------------|---------------------------|----------------------------|---------------------------|-----------------------------|---------------------------------------|------------------------------|
| 2019          | 93.388           | 1.88                        | 2.660                  | 46.368            | 0.00                      | 59.612                   | 2019          | 0.030                    | 0.812                       | 202.840                            | 280.501                                        | 101.220                           | (50.329)                        | 2,100,431                      | 0                      | 1,796,640                 | 301,084                    | 303,791                   | 85.54%                      | 234,122                               | 229,627                      |
| 2020          | 97.095           | 1.94                        | 2.014                  | 48.651            | 0.00                      | 55.315                   | 2020          | 0.030                    | 0.786                       | 203.861                            | 281.467                                        | 101.217                           | (24.939)                        | 2,120,986                      | -7,202                 | 2,046,822                 | 66,962                     | 74,164                    | 96.50%                      | 139,478                               | 136,257                      |
| 2021          | 108.395          | 1.99                        | 1.347                  | 57.215            | 0.00                      | 66.064                   | 2021          | 0.030                    | 0.767                       | 233.788                            | 315.951                                        | 102.588                           | 60.199                          | 2,148,269                      | -10,423                | 2,210,362                 | -72,516                    | -62,093                   | 102.89%                     | 73,958                                | 84,378                       |
| 2022          | 115.573          | 2.05                        | 1.751                  | 58.402            | 0.00                      | 67.127                   | 2022          | 0.030                    | 0.713                       | 243.566                            | 324.838                                        | 108.823                           | 186.911                         | 2,285,847                      | -3                     | 2,432,318                 | -146,474                   | -146,471                  | 106.41%                     | -355,345                              | -347,010                     |
| 2023          | 122.984          | 2.12                        | 2.320                  | 57.369            | 0.00                      | 71.225                   | 2023          | 0.030                    | 0.644                       | 254.542                            | 342.337                                        | 120.203                           | 53.825                          | 2,544,094                      | 8,332                  | 2,343,555                 | 208,871                    | 200,539                   | 92.12%                      | 39,136                                | 36,774                       |
| 2024          | 133.907          | 2.18                        | 2.437                  | 61.372            | 0.00                      | 76.837                   | 2024          | 0.030                    | 0.677                       | 275.230                            | 379.072                                        | 132.751                           | 20.000                          | 2,655,021                      | 5,970                  | 2,491,256                 | 169,735                    | 163,765                   | 93.83%                      | 62,535                                | 62,535                       |
| 2025          | 147.083          | 2.24                        | 2.511                  | 64.263            | 0.00                      | 82.356                   | 2025          | 0.030                    | 0.697                       | 296.909                            | 407.795                                        | 139.389                           | -                               | 2,787,772                      | 0                      | 2,686,542                 | 101,230                    | 101,230                   | 96.37%                      | 77,059                                | 77,059                       |
| 2026          | 151.496          | 2.31                        | 2.586                  | 64.893            | 0.00                      | 85.856                   | 2026          | 0.030                    | 0.718                       | 305.548                            | 418.095                                        | 146.358                           | -                               | 2,927,161                      | 0                      | 2,902,989                 | 24,172                     | 24,172                    | 99.17%                      | 86,629                                | 86,629                       |
| 2027          | 156.041          | 2.38                        | 2.663                  | 65.209            | 0.00                      | 89.505                   | 2027          | 0.030                    | 0.739                       | 314.158                            | 429.042                                        | 153.676                           | -                               | 3,073,519                      | 0                      | 3,135,977                 | -62,458                    | -62,457                   | 102.03%                     | 97,775                                | 97,775                       |
| 2028          | 160.722          | 2.45                        | 2.743                  | 65.209            | 0.00                      | 93.309                   | 2028          | 0.030                    | 0.762                       | 322.744                            | 440.106                                        | 161.360                           | -                               | 3,227,195                      | 0                      | 3,387,428                 | -160,233                   | -160,233                  | 104.97%                     | 110,054                               | 110,054                      |
| 2029          | 165.543          | 2.53                        | 2.826                  | 65.209            | 0.00                      | 97.275                   | 2029          | 0.030                    | 0.784                       | 331.637                            | 449.418                                        | 169.428                           | -                               | 3,388,554                      | 0                      | 3,658,841                 | -270,287                   | -270,287                  | 107.98%                     | 121,787                               | 121,787                      |