

MANAGEMENT DISCUSSION AND ANALYSIS

As an integral part of the annual report, the Management Discussion and Analysis (MD&A) provides further insight into the operations and financial position of the Workers' Compensation Board of Nova Scotia (WCB). The discussion and analysis should be read in conjunction with the audited financial statements and supporting notes. This MD&A and the accompanying financial statements reflect amounts based on the facts and circumstances at the reporting date.

FORWARD-LOOKING INFORMATION

This report contains forward-looking information and actual results may differ materially. Forward-looking information is subject to many risks and uncertainties as this information may contain significant assumptions about the future. Forward-looking information includes, but is not limited to, WCB strategies, targets, outlook and funding strategy.

Risk and uncertainties about future assumptions include, but are not limited to, the changing financial markets, industry mix related to the covered workforce in Nova Scotia, the economy, legislation, accounting standards, appeals and court decisions, and other risks which are known or unknown. We caution the reader about placing reliance on forward-looking information contained herein.

STATEMENT OF Financial Position

The WCB's financial position declined in 2022, with a comprehensive loss resulting in the Accident Fund decreasing to 92.9 per cent funded from 106.4 per cent in 2021. The decline in financial position is primarily attributed to losses on investments and unfavourable actuarial experience adjustments. This was not unexpected in the backdrop of 2022 being a year of investment market volatility and inflationary pressures.

Wide fluctuations in investment returns demonstrates how results can vary over a short period of time and the impact this can have on the funded position. 2022 also serves as a reminder that shocks to the system occur as the WCB makes progress toward the strategic priority of funding our future. The following could impact future financial results: financial markets and inflation uncertainty; impacts of claims and in particular related to presumptive Post Traumatic Stress Disorder (PTSD) legislation, and economic pressures.

Overall, the majority of the corporate balanced scorecard performance measures were met in 2022 and demonstrated progress in operational outcomes. Of note, the injury rate target was met and improved to 1.54 time-loss claims per 100 covered workers.

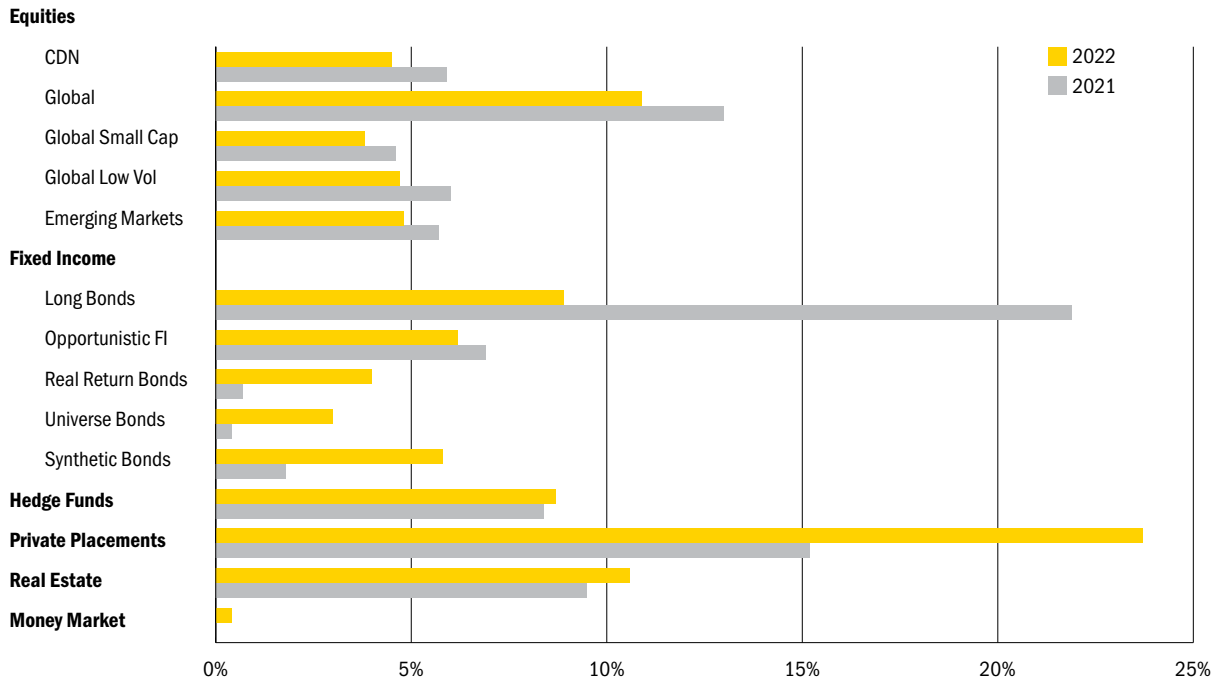
INVESTMENTS

Benefits for injuries occurring in a year are paid in the year of injury and, for some workers, for many years after the injury. The WCB maintains an investment portfolio to secure the payment of benefits in the future.

Portfolio Structure

The WCB has a fund of fund managers' arrangement with Mercer Global Investments Canada Limited (MGI). The benchmark portfolio reflects the fund's long-term risk tolerance. At any given time, the fund's asset allocation may differ from the benchmark. The benchmark is useful for assessing performance of the fund. As compared to 2021, target allocations have changed as detailed in the graph.

BENCHMARK PORTFOLIO STRUCTURE



As set in a multi-year plan, the WCB continues to transition funds into alternative investments through limited partnerships. Moving to these alternative investment classes is intended to provide attractive risk-adjusted returns while reducing risk through further diversification of the investment portfolio and decreasing the WCB's exposure to equities. During 2022, the WCB entered into additional limited partnerships to commit a further \$467 million CAD. Contributions to these funds commenced in 2022 and will continue with future funding calls.

The WCB uses an active investment strategy where the investment manager is charged with exceeding the market index returns for all asset classes. The WCB continues to use a passive currency hedging overlay strategy with a hedge ratio of 15 per cent of the total foreign currency exposure. A glide path to reduce the hedging strategy is in place reducing the portion hedged gradually, and currency hedging will end completely when the Canadian dollar reaches \$0.85 USD.

Capital Markets Review

Overall, 2022 proved to be a historically volatile year amid uncertainties, including rising interest rates, higher-than-expected inflation, global supply chain issues, monetary policies, and the war in Ukraine.

Inflation surged around the globe and central banks raised interest rates aimed to temper inflation.

Although Canadian equities could not avoid the losses seen globally, they did rank amongst the top-performing equity indices. Global equities took a hit from rising interest rates and the ripple effects of inflation led to a sharp selloff in fixed income, with Canadian and global bonds recording losses.

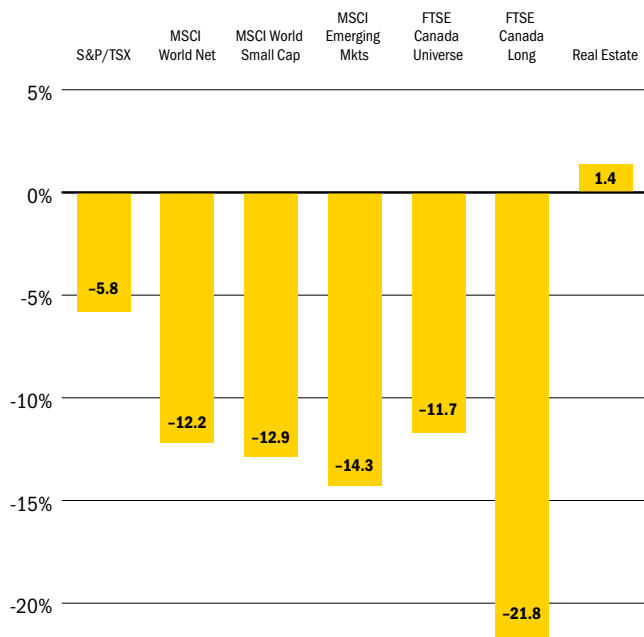
The fund's objective is to exceed the performance of the benchmark portfolio over a five year, moving average period (before investment management fees). The five-year fund return of 4.6 per cent exceeded the 3.7 per cent benchmark and therefore the objective was met. The absolute return was below the long-term rate of 6.0 per cent that is assumed in the funding strategy. Fund manager objectives are established by individual mandates with each fund manager. Performance is reviewed at the fund and manager level by the Investment Committee, a sub-committee of the Board of Directors.

As the investments are held to meet payment obligations that extend many years into the future, the valuation of investments at a point in time provides a view of the financial position of the WCB at only that point in time. Note 7 of the financial statements describes the potential for volatility of the portfolio. The WCB maintains an investment portfolio diversified among a variety of asset classes and fund managers in order to optimize returns and manage risk.

MANAGEMENT DISCUSSION AND ANALYSIS

2022 FINANCIAL MARKET RETURNS

(percentage)



BENEFITS LIABILITIES

The WCB's benefits liabilities represent the actuarial present value at December 31, 2022 of all expected benefit payments that will be made in future years, which relate to claims arising from events that occurred on or before that date. The benefits liabilities represents the best estimate of the payments that would be required if these liabilities were settled in cash on December 31, 2022.

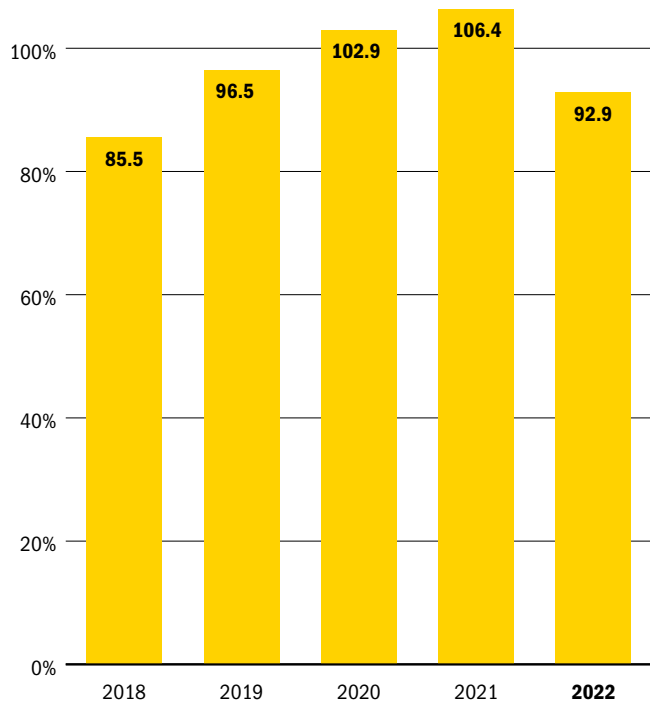
The benefits liabilities increased by \$237.6 million or 10.8 per cent. This is the change in the present value of benefits payable in future years, calculated through the annual actuarial valuation process. The valuation takes into account claims costs incurred, claims payments made, growth in the present value of the benefits liabilities, legislated change, change in assumptions and actuarial experience adjustments including an adjustment for the change in liability for latent occupational disease.

FUNDED POSITION

The WCB's assets total \$2.34 billion and liabilities total \$2.52 billion. The WCB's funded percentage decreased to 92.9 per cent. The WCB maintains a focus on long-term financial stability and sustainability of the workers' compensation system.

FUNDED PERCENTAGE

For Nova Scotia, 2018-2022



STATEMENT OF Comprehensive Income

In 2022, total revenues of \$265.2 million (\$370.9 million in assessment revenues, plus \$69.6 million in contributions from the Province of Nova Scotia, less \$175.3 million in investment loss) less total expenditures of \$599.3 million and add the gain on the re-measurement of post-employment benefit liabilities of \$8.3 million yielded a total comprehensive loss of \$325.7 million.

The operating results for 2022 and 2021 may be attributed to the following factors:

(\$000's)	2022	2021
Assessment revenue in excess of current year costs	\$48.2	\$26.4
Investment income (below) above liability requirements	(284.2)	107.8
Actuarial liabilities (more than) less than previously anticipated	(98.0)	(60.2)
Other comprehensive income from actuarial gains on post-employment benefits	8.3	10.4
Total comprehensive (loss) income	\$(325.7)	\$84.4

ASSESSMENT REVENUE

The WCB receives two types of assessment revenue. Most employers pay an insurance premium with rates established based on prior years' experience. Federal and provincial government agencies and departments are self-insured. Rather than paying an insurance premium, they reimburse the WCB for claims payments made on their behalf plus an administration fee.

Total assessment revenue from insured firms increased \$28.5 million (8.5 per cent) from 2021. Revenue estimates include remittances received and collected in the following year. In 2022, the payroll base increased, reflecting an increase in the maximum assessable earnings, inflationary increases in wages, and an increase in the insured workforce, as general economic activity and businesses opened more broadly than in 2021.

The actual average assessment rate per \$100 of assessable payroll, net of conditional surcharge refunds and practice incentive rebates, was \$2.60 – the same as the revised

2021 average rate revised from \$2.66. The rate is calculated on a consistent basis with prior and current years. The fact that the actual rate for both years is below target of \$2.65 indicates that the mix of payroll amounts submitted by employers in high-rate industries and those submitted by employers in low-rate industries was different than anticipated.

The lower rated industries made up a greater proportion of payroll than that projected during rate setting for 2021 and 2022. This shift in the industry mix occurred through an exceptional period of time of a global pandemic. A portion of the change was due to a notable increase in maximum assessable earnings impacting lower rated industries. The last two years demonstrate how relatively small shifts in payroll between the assumed and the actual distribution of payroll can move the average rate relatively significantly.

The 2022 self-insured administration fees were \$7.8 million. Administration fees are calculated based on 2021 claims payments and administration costs.

INVESTMENT INCOME

Investment income is derived from the investment portfolio managed by external investment managers. Total investment loss was \$175.3 million for 2022, a decrease of \$385.6 million (183.4 per cent) from the 2021 income of \$210.3 million. The reflects an absolute investment return on the externally managed portfolio of negative 7.2 per cent and reflects the investment market volatility in 2022. The 2021 return was 9.7 per cent. The WCB recognizes changes in market value of investments in the year of occurrence. Note 6 to the financial statements provides investment income details.

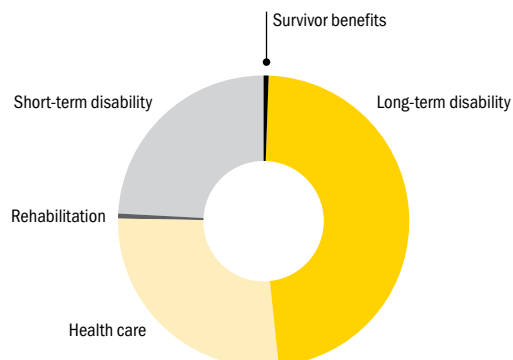
CLAIMS COSTS INCURRED

Claims costs incurred are an estimate of the costs related to injuries which occurred in 2022. These estimates take into account claims reported and paid, unreported claims and claims that are reported but as yet unpaid. The liabilities include provisions for both the future cost of administration of claims that occurred prior to December 31, 2022; and for exposures that will result in future occupational disease claims beyond December 31, 2022. The liability does not include an allowance for any changes to present policies and practices, or for the extension of new coverage types.

MANAGEMENT DISCUSSION AND ANALYSIS

TOTAL CLAIMS COSTS INCURRED

(in thousands)



	2022		2021	
Survivor benefits	1,751	0.7%	1,347	0.6%
Long-term disability	115,573	47.9%	108,395	46.4%
Health care	64,620	26.8%	66,064	28.3%
Rehabilitation	713	0.3%	767	0.3%
Short-term disability	58,402	24.2%	57,215	24.5%

Claims costs incurred increased in aggregate by \$7.3 million (3.1 per cent) from 2021. This is primarily due to an increase in long-term disability of \$7.2 million (6.6 per cent) and is mainly the result of higher than historical average Extended Earnings Replacement Benefit (EERB) awards. The few years leading up to and including 2022 presented challenges in processing EERB awards. The backlog resulted from a number of factors: work slowed during the transition and implementation of a new claims processing system; COVID-19 created service access delays and challenges with return-to-work opportunities; and new PTSD legislation increased claims volumes.

With the focused effort on resolving older EERBs, there is an expectation EERB volumes in future years will trend back down to levels expected in our valuation. The increased cost is also attributed to wage and inflation pressures which saw an increase in the average value of an EERB award.

GROWTH IN PRESENT VALUE OF LIABILITIES, CHANGE IN ASSUMPTIONS, ACTUARIAL EXPERIENCE ADJUSTMENTS AND OTHER CHANGES

The benefits liability is calculated by an independent external actuary based on historical claims payment data coupled with assumptions about future experience. The growth in the present value of benefits liabilities is the increase in the present value of prior years' obligations due to an interest amount reflecting the time value of money. In 2022, this amount was \$109.0 million or about 5.20 per cent

of the opening benefits liabilities, prior to adjustment for occupational disease in the latency period. This amount varies slightly by benefit category as the expected inflation component varies. Based on the long-term assumptions for inflation and investment returns, we expect growth to occur at approximately 5.50 per cent (5.25 in 2021) annually.

Actuarial experience adjustments represent the difference between what was predicted based on the actuarial assumptions and methods used in the prior valuation years, and what actually occurred in the year. In 2022, the volume and average cost (due to inflation and higher wages) of new EERBs were higher than expected in the actuarial assumptions.

The projected increased cash flow resulting from higher earnings and volumes along with other factors such as mortality experience, future claims administration costs, and other non-specified actuarial adjustments, combined to produce an unfavourable adjustment of \$75.8 million. This was partially offset by a favourable adjustment of \$35.1 million from a 0.25 per cent increase in the discount rate.

Additionally, the provision for future long-latency occupational diseases increased \$126.9 million based on an updated actuarial study. Considered in this adjustment is an estimate for the expanded coverage of presumptive cancers in firefighters to include an additional 13 cancers and heart attacks that occur within 24 hours of a call and an equal amount was reimbursed by the Province of Nova Scotia.

ADMINISTRATIVE COSTS

Administrative expenditures in 2022 totaled \$61.6 million, a decrease of \$1.0 million or 1.7 per cent from 2021. This is primarily due to favourable adjustments on other than pensions expenses and planned savings during the year.

LEGISLATED OBLIGATIONS

The WCB reimburses the Province of Nova Scotia for the operating costs of the Occupational Health and Safety Division of the Department of Labour, Skills and Immigration, the Workers' Advisers Program, and the Workers' Compensation Appeals Tribunal. The WCB and the Province of Nova Scotia have different fiscal years. The WCB's year-end is December 31, and the Province's year-end is March 31. The WCB's expenses for legislated obligations are estimates based on the forecasts of expenditures supplied by the Province of Nova Scotia. The legislated obligations expenses reported by the WCB and the amounts reported by the Province can vary significantly.

STATEMENT OF Cash Flows

Cash increased in 2022 as cash generated through assessment premiums was more than benefit payments and operations and timing of a larger payment post year end.

Funding Strategy

The WCB's funding strategy considers assumptions about revenue from the covered workforce payroll base, operational results and investment returns. 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 obligations for benefits awarded in the past.

In 2022, the invested assets are less than total liabilities. The 2023 funding strategy included an estimated total comprehensive loss for 2022 of \$137.0 million. The actual total comprehensive loss for 2022 is \$325.7 million, reducing the WCB's funded ratio to 92.9 per cent. As witnessed in 2022, changes in investment returns and actuarial experience create volatility in our funded ratio.

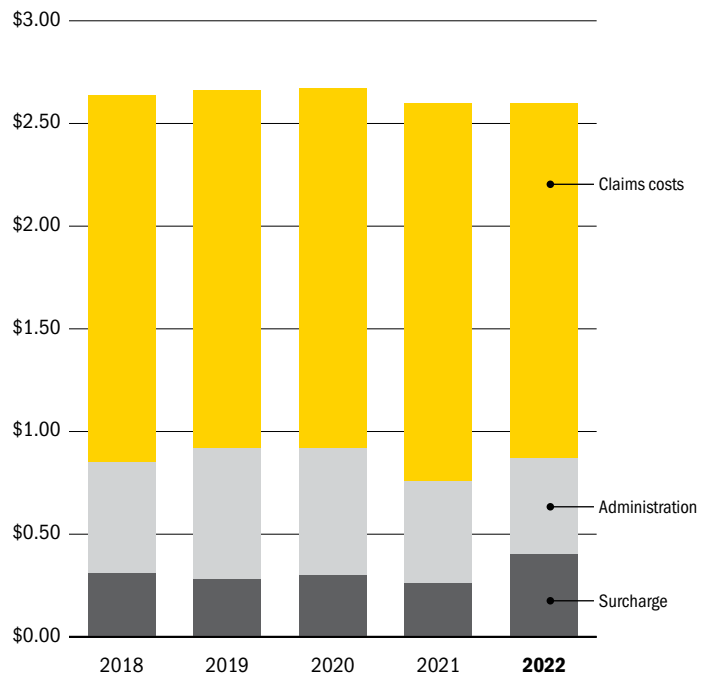
Each year, premiums are collected from employers based on a targeted average rate of \$2.65 per \$100 of assessable payroll. The actual average assessment rate will vary from the target rate when the mix of payroll among high and low rated employers is different than expected. As noted in the revenue discussion, in 2021 and 2022 the proportion of lower rated payroll was higher than expected resulting in an average rate of \$2.60 for these years.

In 2022, the portion of the \$2.60 actual average rate required to fund injuries that occurred in the year was \$1.73, with administration and legislated obligations costs requiring \$0.47, and lower than previous years due to a favourable adjustment in other than pension benefits. The remaining \$0.40 was excess contributions.

A key component of the funding strategy is the return on invested assets. Investments delivered a negative 7.2 per cent return in 2022. This was below the forecasted return for 2022 of 0 per cent in the backdrop of declining investment markets. Cumulative returns have been positive in recent years with the exception of a setback in 2018. The annualized 10-year return as of December 2022 was 5.7 per cent, and below the long-term investment assumption of 6.0 per cent.

BREAKDOWN OF AVERAGE RATE

For Nova Scotia, 2018-2022



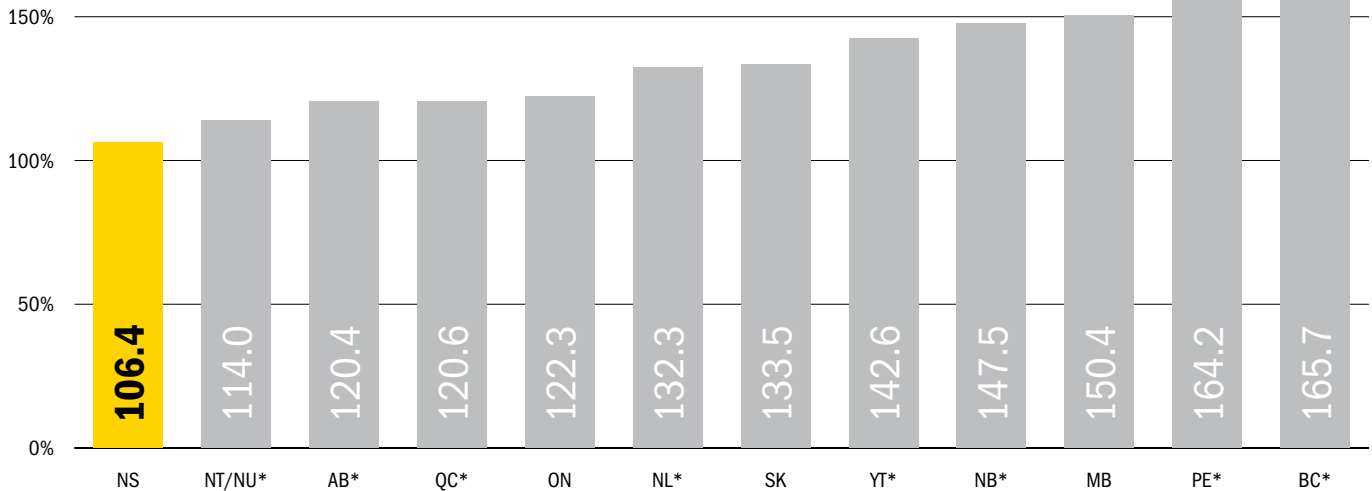
Financial progress over the past several years has been encouraging, although there are many factors that can influence the funding strategy. All of the assumptions are based on long-term expectations. By nature, annual investment returns are unpredictable and we expect that short-term results will vary from the long-term expectations. Revenue from the covered workforce is dependent on economic activity and the size of the covered workforce and claims experience can vary. Note 11 of the financial statements details areas of uncertainty, including actuarial experience, which may have a significant impact on the WCB's benefits liabilities and funding strategy.

The 2022 results, and the expected outcomes of our new strategic plan will be incorporated when the Board completes its annual planning process in June of 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

FUNDED PERCENTAGE

All Provinces, 2021 (AWCBC)



* These jurisdictions cover more than 90 per cent of the workforce, while the remaining jurisdictions cover less than 80 per cent. Compared to jurisdictions like Nova Scotia who cover fewer and higher-risk industries, covering more of the workforce is one factor that can lead to a more sustainable funding environment. WCB Nova Scotia is pleased to have achieved financial sustainability, after decades of significant imbalance between assets and liabilities.

Risk Areas

Given the nature of our operations, the WCB is inherently susceptible to risks that, if unmitigated, could lead to significant financial consequences. Benefit costs, investment returns, economic conditions, fraudulent activities and cyber and technology risk are all considerations that can affect the WCB's performance and financial results.

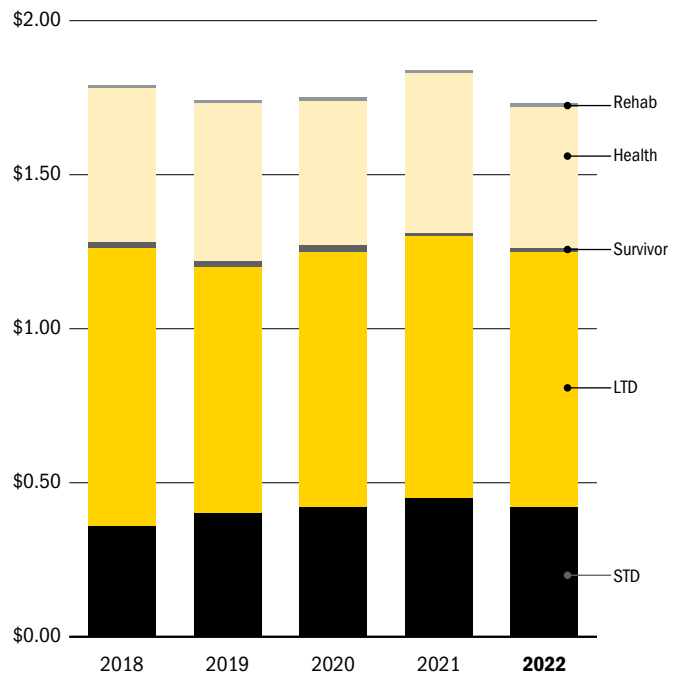
BENEFIT COSTS

Long-term disability is the largest component of benefit costs. The WCB strives for continuous improvement in outcomes for workers through prevention and return to work. Our strategic plan looks to improve return-to-work outcomes while maintaining a steady reduction in the volume of injuries occurring in workplaces across the province. Reductions in injuries and improving return-to-work outcomes require employers, workers, and health care providers to work together in fostering safe and timely return to work.

Return-to-work opportunities and access to services did improve in 2022 as the economy continued to recover from the global pandemic. The upward trend in the volume of complex claims due to traumatic psychological injuries stabilized in 2022. These claims have longer durations and tend to be more complex for case workers managing these claims.

BENEFIT COSTS PER \$100 OF ASSESSABLE PAYROLL

For Nova Scotia, 2018-2022



INJURY RATE

The injury rate is one of the most significant drivers of benefit costs, and a key strategic focus. At the end of 2022, the injury rate was 1.54 time-loss claims per 100 covered workers, down from 1.58 in 2021. Excluding the impact of 361 COVID-19 claims accepted in 2022, the injury rate would have been 1.44.

As of December 31, 2022, there were 399 fewer time-loss injuries than in 2018. This reflects a 7 per cent decrease over the five-year period.

Increases in long-term disability costs are expected to continue in 2023 as we continue to award a higher number of long-term awards than traditional patterns. As volumes decrease and complex claims are resolved, we expect the number of new long-term awards to begin a downward trend beginning in 2024.

CLAIM DURATIONS

In Nova Scotia, people injured at work stay on short-term benefits longer than in many other provinces and a higher proportion of workers go on to receive long-term benefits. The WCB is beginning to introduce early intervention and new return-to-work approaches designed to help workers safely return to work more quickly, thereby reducing claims costs incurred over time resulting in reducing durations and reducing the number of workers going on to long-term disability.

Claim durations reflect the persistence of injuries that occur in the workplace. There is a focus to improve outcomes for people injured at work, and reduce the human and financial cost of workplace injuries in Nova Scotia. Progress has been slow as the nature and mix of injuries has changed over time. Following an improvement in 2021, further progress was made in 2022 with time-loss days per 100 covered workers decreasing from 317 days in 2021 to 292 days in 2022. Additionally, the percentage of time-loss claims resolved within 180 days of injury increased from 80 per cent in 2021 to 81 per cent in 2022 led by improvements in the Long-Term Care and Home Care sectors.

INVESTMENT RETURNS

The WCB's assets are diversified among a variety of asset classes and fund managers in order to optimize returns and manage risk. External investment managers must comply with the WCB's Statement of Investment Policies and Objectives (SIPO) that outlines permissible investments. The SIPO is designed so the portfolio will provide reasonably secure payment of the long-term liabilities of the WCB.

Some risks cannot be directly controlled by the WCB. These risks include market volatility and interest rate changes. Investment returns that are different than the long-term expectation for returns in the funding strategy can have a significant impact on our funding position.

ECONOMIC CONDITIONS

Throughout 2022, lingering impacts from the COVID-19 pandemic, compounded by the war in Ukraine and inflationary pressures, fed volatility in the financial markets. Future economic uncertainty could impact the economic growth in the province, increase inflationary pressure on the system and the financial market conditions may be volatile related to world economies and conditions. The WCB has the ability to continue as a going concern. This has been tested with the pandemic, and in the past with the addition of chronic pain benefits and the investment market volatility of 2008.

FRAUD

The WCB provides workplace injury insurance to about 20,600 employers and about 352,000 workers across Nova Scotia and uses the services of thousands of service providers. The significant volume and value of the monetary transactions that occur create a risk to the WCB of fraudulent activity by internal and external stakeholders. To proactively strengthen the management of this risk, the WCB performs data quality, integrity checks and reconciliations; implements internal controls including cyber security, follows a policy framework and employs a Special Investigations Unit.

MANAGEMENT DISCUSSION AND ANALYSIS

TECHNOLOGY

The reliability of WCB's information technology is crucial to supporting the organization's operations and safeguarding personal records. System failures or security breaches are significant risks to the WCB. The organization has taken steps to mitigate these risks by investing in technology, maintaining backup systems and processes, developing staff expertise, having disaster recovery plans and policies for information management, and enterprise architecture purposes.

Critical Accounting Policies and Estimates

The WCB follows International Financial Reporting Standards (IFRS). IFRS requires that management make assumptions and estimates. Financial statement Note 3 "Significant Accounting Policies" and Note 4 "Accounting Judgements and Estimates" outline the WCB's significant accounting policies and estimates.

Significant policies include measurement of investment income and the valuation of the benefits liabilities. Reported investment income is affected by the changes in fair market values of the investments held. These changes in fair value are recorded directly in income in the period the changes occur. This adds to the volatility of reported investment income from year to year.

The benefits liabilities determined in the financial statements are estimated using many actuarial assumptions. The two most significant assumptions are the long-term discount rate and the long-term inflation rate, and estimates are highly sensitive to small changes in these assumptions. Measurement uncertainty is high because of the amount, timing, and duration of the benefits. Actual future results will vary from the actuarial valuation estimate and the variations could be material.

One of the most significant future changes is the move to market-based interest rates used to discount the future cash flows of the benefits liabilities (IFRS-17) and this is effective January 1, 2023. The new standard does not change our business, the WCB is providing the same service. The methodology used to develop the financial statement results will change and separates presentation of insurance from other parts of operations.

Under IFRS 17, the discount rate will be based on prevailing market rates, which will likely result in significantly more volatility in the measurement of insurance contract liabilities and therefore insurance results due to the underlying market conditions. With the adoption of IFRS 17, it is anticipated there will be a significant impact to opening liabilities in 2022 (measured using the market rate) and less impact for opening liabilities 2023 due to unprecedented increases in interest rates in 2022. At the end of 2022, a market based discount rate would have decreased the funded ratio from 92.9 per cent to about 91.5 per cent. A sensitivity analysis relating to insurance risk is included in Note 11 of the financial statements. Basically, the funded position under going concern represents the financial position over the long term and links to the expected rate of return on investments of the Accident Fund. The market-based funded position looks to shorter term return expectations should the WCB cease operations at the reporting date. Management is continuing to quantify the impact of the opening financial statement adjustment for 2022 and 2023.

OUTLOOK

The WCB operates as a going concern. The funding strategy supports the WCB's ability to remain financially sustainable while maintaining the system and balancing worker and employer perspectives.

In line with the strategic priority of funding our future, the funding strategy assumes a growing economy, long-term investment return expectations across a diversified portfolio and stabilized claims costs for a financially sustainable system. The funding strategy will continue to utilize the going concern assumption for the purpose of future decisions and planning, such as operational forecasting, and employer rate setting, linking to a longer term expected return on investments.

Within the funding strategy, when the financial results are different than planned, better or worse, on an annual basis there are possible courses of action: adjust rates paid by employers, adjust benefits to workers, and increase or decrease the time period of the current year impact. In the past, to a large extent, the funding period has been decreased or increased to absorb variations between future-based financial projections and actual results. As the level of benefits are set by the Government of Nova Scotia, subject to interpretation by the Courts, the funding equation is not entirely within the control of the WCB as the neutral administrator. The Act states that current year costs must be covered by current year premium revenue regardless of the funded position.

The WCB and all system stakeholders must recognize and appreciate the volatility, and the delicate nature, of having eliminated the unfunded liability in 2020. As we experienced in 2022, the funded position will fluctuate in coming years, and will almost certainly hover above and below 100 per cent. Ensuring a sufficient and sustainable funded per cent margin is integral to funding our future. Our plan is to achieve long-term sustainability, continued innovation and therefore overall improvement for the system. The focus of the WCB's efforts over the next several years will be to improve outcomes for people injured at work, and their employers, by supporting injury prevention and safe and timely return to pre-injury earnings.

Interest has been raised for increased benefits for people injured at work and/or reduction in employer assessment rates. The WCB's current strategic priorities for 2021–2023 include considerations around funding for our future, to ensure financial sustainability. Having a strong funded percentage is necessary to withstand a system shock (in economic growth, investment returns or claim costs).

The Board of Directors will review the funding strategy as part of the annual plan and budget process in June 2023. Although the funding strategy clearly labels assumptions as such, it is possible to read more certainty and precision into the strategy than warranted, given the number and nature of assumptions it contains. It is important to note that the funding strategy is our best estimate of what will happen given various assumptions. As noted in previous annual reports and in the funding strategy, actual results will differ from the projections and these differences may be material.