

2012

ANNUAL REPORT

WORKSAFE



TRAVAIL SÉCURITAIRE

NB



**WORKSAFENB
ANNUAL REPORT 2012**

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Q&A with: Sharon Tucker, Chairperson Gerard Adams, President & CEO

WorkSafeNB's affairs are administered by a board of directors, comprised of a chairperson, a vice-chairperson, five members representing workers, and five members representing employers. In addition to other responsibilities, the chairperson serves as chief spokesperson for the board.

WorkSafeNB's president and chief executive officer is accountable to the board and is responsible for executing the strategies and accomplishing the goals set out by the board. The president sits on the board as a non-voting member.

Sharon Tucker, chairperson of the board, and Gerard Adams, president and chief executive officer, share their perspectives on the past year.

Q: What kind of year was 2012 for WorkSafeNB?

ST: 2012 was a year of **transition** on many fronts. We completed the recruitment process for our new president and CEO. The board was very happy to welcome Gerard Adams to the team in February, and we're confident we made the right choice. During the recruitment process, we were fortunate to have Peter Murphy step into the role as interim president. The wisdom and knowledge he brought to the position gave us a stability and continuity that allowed us to pursue a detailed process that ensured we found the right candidate to move our organization forward.

Our board continues to be a stakeholder-driven body, and we have a lot of independent thinkers around the table, with differing values and opinions, which is excellent. All the different values and opinions we represent really drive creativity and debate. It's a great group, and it's a privilege to be a part of it.

Q: Gerard, now that you have a year under your belt, what are your thoughts on the organization?

GA: The thing that most impresses me about this organization is how well disciplined it is. Everything we do is rooted in policy and process – and that's because we enjoy the kind of structured environment that can only be developed over a period of time by talented and dedicated people.

Q: What were the year's highlights?

GA: By any statistical measure we had a successful year. Our accident frequency is the second lowest in the country, our funded position is very healthy. But we're achieving our goals in a quiet way; we're not an organization that blows its own horn - we go about our business and get things done. We're part of the social fabric of the province, and that's a responsibility we don't take lightly.

Now we're faced with maintaining that success, and finding creative ways to effect change in smaller increments. We can't take our foot off the accelerator.

Q: Were there any challenges you faced as an organization?

ST: We face challenges all the time, and we work together to resolve them as a team.

For example, we interpret legislation and create policies that reflect a committed due diligence when it comes to serving our stakeholders and maintaining the balance that is crucial to achieving a healthy compensation system.



Our system provides a mechanism for appealing the decisions we make based on our policies.

Our team responds quickly to change, adapting our policies and addressing the needs of affected injured workers, and turning challenges into opportunities to demonstrate service excellence.

That kind of responsiveness is only possible in a disciplined environment that prioritizes **collaboration** between stakeholders and team members.

GA: Mitigating challenges that impact our fiscal bottom line is something we can do because of our disciplined approach. As an accountant, I would say the following about financial **stability**: if you have it, you can concentrate on other important things. If you don't have it, it's the only thing you can concentrate on.

Our organization is firmly in the former category, and that stability is the foundation we work from.

ST: It gives us a professional **readiness**. We can quickly respond to unexpected events, and we know what's on the radar for our stakeholders and our employees. We begin monitoring the situation as early as we can, and we make sure we have the right information to develop our plans.

Q: What do you see for WorkSafeNB, looking forward from the foundation laid in 2012?

ST: We're going to deepen our investment in board evaluation, continuous improvement initiatives that welcome staff input, and partnerships that create better outcomes for our stakeholders. Our award-winning shoulder referral program is just one example of that success.

GA: We're also going to analyze the coming changes in our workforce and our industrial landscape, and build on our collaboration with our partners in the Atlantic provinces, creating efficiencies related to communications and other areas of our business.

We're looking forward to 2013 with optimism and enthusiasm.

Sharon Tucker
Chairperson

Gerard Adams
President and CEO

Who we are

We are a Crown corporation charged with overseeing the implementation and application of the *New Brunswick Occupational Health and Safety Act*, the *Workers' Compensation Act* of New Brunswick, the *Workplace Health, Safety and Compensation Commission Act* of New Brunswick, and the *Firefighters' Compensation Act*.

VISION

Healthy and safe workplaces in New Brunswick

MISSION

WorkSafeNB will promote a safe and healthy work environment to the workers and employers of New Brunswick and efficiently provide quality services, just adjudication and fair administration of the legislation.

MANDATE

- Promote the creation of a workplace safety culture in which all employees and employers view all occupational diseases and accidents as being preventable.
- Promote an understanding, acceptance and compliance with all legislation for which WorkSafeNB is responsible, including the enforcement of the *OHS Act* and regulations.
- Provide timely compensation benefits, medical aid, rehabilitation, and safe return-to-work services to injured workers.
- Provide sustainable insurance and insurance-related services to the employer community.
- Represent stakeholders and provide recommendations and advice to government with respect to legislation and publish such reports, studies, and recommendations WorkSafeNB considers advisable.

Board of directors

Chairperson > Sharon Tucker

Vice-chairperson > Bill Oliver

Non-voting members >

President and CEO: Gerard Adams*

Chairperson, Appeals Tribunal: Ronald Gaffney

Members, left to right >

Michael Allen, Michèle Caron, Euclide Haché**, Hector Losier and Maureen Wallace.

David Ellis, Kim Froats, Judith Lane, Jean Stewart and Mel Vincent.

*Appointed February 27, 2012

**Resigned October 10, 2012



Executive team

President and CEO > Gerard Adams
 Vice-President, WorkSafe Services > Shelly Dauphinee
 Vice-President, Corporate Services > Peter Murphy
 Corporate Secretary & General Counsel > Christine Fagan



Quick facts

As of Dec. 31, 2012

Number of assessed employers	14,352
Provisional average assessment rate	\$1.70 ^①
Total claims created (can include claims with no application for benefits)	22,609
Claims recorded, no benefits paid	12,402
Total claims adjudicated	12,080
Lost-time claims (at least one day)	5,302
No lost-time claims	5,082
Maximum assessable/insurable earnings	\$58,100
Accident frequency rate per 100 FTEs	2.99
Average claim duration (days)	58.7
Average (non-tax) payment per claim	\$4,564
Average calendar days from injury to first payment issued	19.6
Number of workplace health and safety inspections	9,148
Number of orders (violations of the <i>Occupational Health and Safety Act</i>)	7,685
Number of accident investigations	307
Work-related fatalities	11 ^②
Administration costs – excludes self-insured and Occupational Health and Safety (000s)	\$25,167
Administration costs – Occupational Health and Safety (000s)	\$9,038
Assessment revenue (000s)	\$139,303
Total premium revenues (000s)	\$164,595
Current year claims costs incurred (000s)	\$105,724
Claims payment made for current and prior years' injuries (000s)	\$139,431
Claims cost incurred for current and prior years' injuries (000s)	\$132,588
Total benefits liabilities – assessed employers (000s)	\$886,757
Total benefits liabilities – self-insured employers (000s)	\$136,863
Market rate of return on portfolio for the year	10.89%

^① Announced assessment rate for 2013 is \$1.44.

^② 7 workplace fatalities occurring in 2012; 4 deaths resulting from previous year injuries/occupational diseases.

stability

2012 was a year marked by stable performance and targets met. Our disciplined, structured approach to our work has given us the solid foundation on which we steward the province's compensation system.

740

Number of firms participating in JHSC training in 2012.



We surveyed these firms, looking for predictive indicators – factors we can address even before an incident or accident occurs. Then we evaluated the results using a scorecard designed to highlight key indicators such as: How frequently is their JHSC meeting? How many orders have been written?

“Our stability comes in part from our long-term vision. Our employees make that vision a reality, and their dedication – sometimes over the span of an entire career – contributes greatly to our ability to achieve our mission.”

Gerard Adams, President & CEO

41-012

The policy number assigned to the Governance - Balancing Decisions policy established in May 2012.



This significant policy document formalizes a disciplined approach for prioritizing and balancing future changes to benefits in accordance with WorkSafeNB's values, strategic direction and priorities.

15%



2012 decrease in the average assessment rate per \$100 of payroll.

A strong funded position and decreasing claims costs warranted an average rate reduction from \$2.00 per \$100 of payroll in 2011, to \$1.70. Our rates continue to be the lowest in Atlantic Canada.

data driven

Our approach to reducing accident frequency, province-wide.



We're mining our claims information, using leading and lagging indicators to tailor our education efforts to those industries and firms most in need of our support.

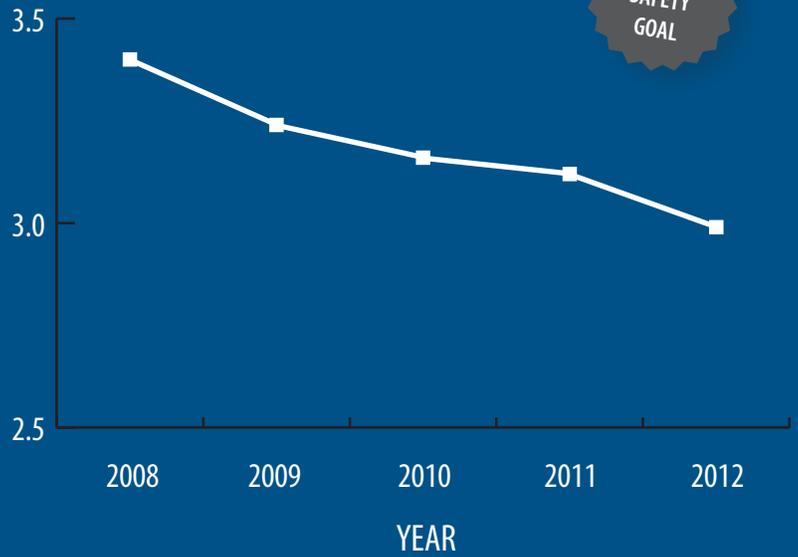
stability in numbers

2012 operational statistics show steady performance and positive results over the long term.

Please note: some previous years' statistics have been restated to reflect current information.

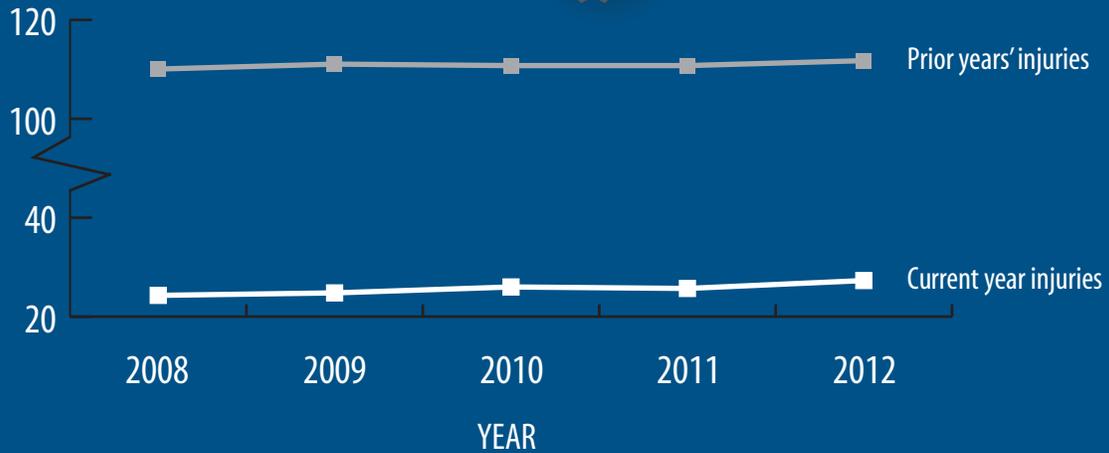
Workplace accident frequency per 100 FTEs

*related to our
SAFETY
GOAL*



Benefits payments (in millions)

*related to our
BALANCE
GOAL*



evaluation



Our system of ongoing program evaluation lets us identify how we're doing, find areas for improvement, and know where we are in relation to our goals.

It is a process that gives us actionable information we can put to good use in the field.

annual



The frequency of our board's risk assessment process.

As part of our annual strategic planning process, our board of directors takes a holistic approach to risk assessment that considers input from staff, stakeholders, partners, and our counterparts in other jurisdictions – contributing to a complete picture of the risks facing our organization.

business continuity planning



In 2012 we reviewed and revamped our comprehensive Business Continuity Plan.

It is a document that precisely details how we'll respond in case of disaster – covering all programs and services.

readiness

2012 was in part dedicated to preparing WorkSafeNB to manage upcoming risks, and ensuring our ability to remain sustainable in spite of identified threats.

33



Number of WorkSafeNB participants in Levels 1 and 2 of the Growing Leaders program designed to foster succession planning throughout the organization.

Participants have the opportunity to work on special projects, benefit from mentorship relationships, and participate in job shadowing exercises.

62

Number of front-line employees and managers who attended 2012's violence prevention training session.

The session was co-ordinated with the support of an expert trainer specializing in violence prevention training.



"Our planning process makes us ready. Our rigorous risk management and strategic planning cycle demands that we identify, plan, execute and revisit. The results speak for themselves."

Sharon Tucker, Chairperson

677

related to our SAFETY GOAL

Number of attendees at our 2012 Health and Safety Conference.

The conference continues to be a valuable awareness and education tool for health and safety in New Brunswick workplaces. This year's event featured CBC radio personality Shelagh Rogers and training intervention specialist Luis Sanchez as keynote speakers.

Each year at the conference, WorkSafeNB recognizes two companies for their exemplary efforts in improving workplace health and safety. At right, top: Xstrata Zinc representatives accept their award. At right, bottom: Air Liquide representatives accept their award.



readiness in numbers

2012 operational statistics show how a strong foundation results in preparedness.

Please note: some previous years' statistics have been restated to reflect current information.

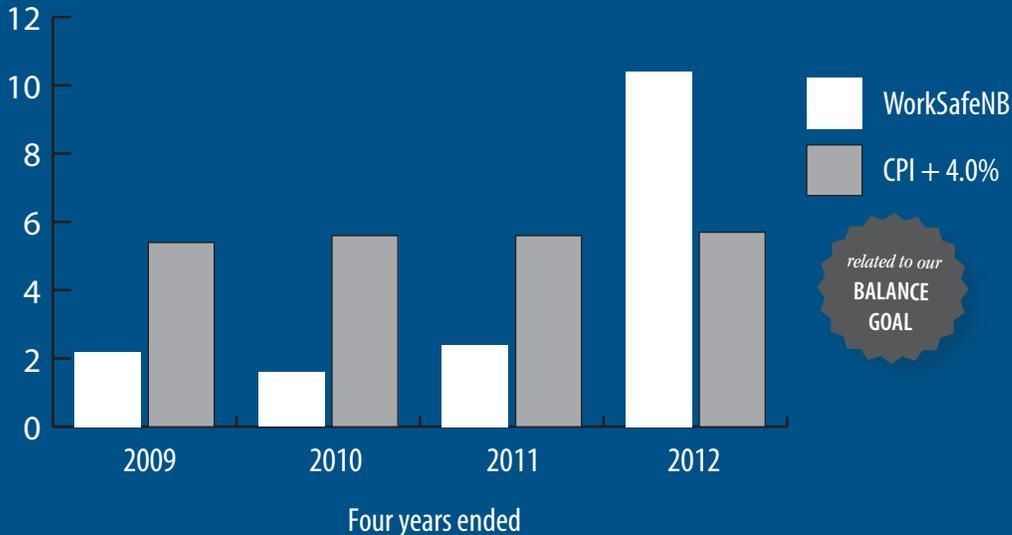
Accident frequency (per 100 FTEs) all focus firms

	2001 Baseline	2011	2012
	8.66	6.13	5.59

related to our SAFETY GOAL

Performance Objective 1

The investment portfolio's rate of return is to exceed the increase in the CPI +4.0% on a four-year moving average basis.



related to our BALANCE GOAL



65

The number of licensed nursing homes in the province.

These organizations have historically suffered high accident frequency rates despite focus industry intervention. In 2012 we formed a partnership with the group in an effort to build a deeper understanding of their businesses with the goal of improving health and safety. Since that time, we have provided a *Back in Form* train the trainer to ensure safe lift and transfer systems in each home, and have customized health and safety inspections to focus on the root causes of injuries. We have also supported the nursing home industry disability management program through offering direct access to physiotherapists to obtain early functional assessments, assisting with “stay at work”.

collaboration

2012 saw our organization reap the benefits of new and creative approaches resulting from cross-functional teams, stakeholder partnerships and inter-jurisdictional collaborations.

“Effective partnerships are critical to our success as an organization. We know from experience that control and influence are distinctly different tools, and we’re seeing the lasting benefits that collaboration brings in terms of ownership and culture change. It’s the way things work these days.”

Andy Rauska, Director, Divisional Support



IWH collaboration

WorkSafeNB partnered with the Institute for Work and Health (IWH) on the development of a health and safety internal responsibility questionnaire.

Two questionnaires – designed to assess leading indicators of health and safety performance – were examined for their effectiveness in the New Brunswick setting. The findings showed the Organizational Performance Metric (OPM) questionnaire to be the most effective for all New Brunswick industries. As a result, the OPM was adopted as the standard questionnaire, and will be incorporated into our health and safety activities.

related to our
SAFETY
GOAL

763

The number of schoolchildren who attended a Progressive Agriculture Safety Day® event in the province's northwest region.

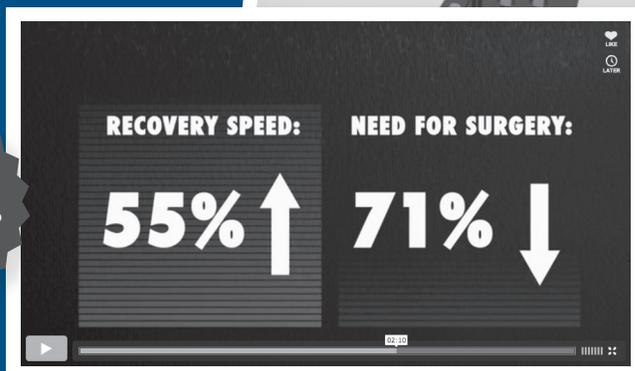
In 2012, WorkSafeNB once again partnered with the Department of Education and the agricultural communities in which they live to educate students on a wide variety of agricultural topics, from firearm safety to recognizing and avoiding chemical exposure.

direct referral

The type of referral provided by physiotherapists in our shoulder program.

In 2012 we expanded our shoulder program throughout the province and continued to see amazing results. Under the program - a collaboration between WorkSafeNB, the province's physiotherapists and the New Brunswick Medical Society - specially trained physiotherapists can directly refer patients to orthopedic surgeons, reducing waitlists and wait times, and ensuring injured workers receive the treatment they need, faster.

related to our
RTW &
SERVICE GOALS



10,000

The estimated number of youth affected.

New Brunswick high school students were provided with access to two free online courses – Introduction to Workplace Health and Safety and WHMIS – through a collaboration among WorkSafeNB, the New Brunswick Construction Safety Association and the Department of Education.

related to our
SAFETY
GOAL

Performance measurements

The board of directors established the following five goals for WorkSafeNB, and developed targets that allow us to measure our performance toward achieving them.

SAFETY GOAL

Our vigorous pursuit of a safe work culture will lead to a decline in the overall frequency of workplace injuries, and a decline in the perception of the inevitability of workplace injuries in New Brunswick.

RESULT



TARGET/DETAILS

The workplace injury frequency rate per 100 full-time employees (FTE) will be lower than the previous five-year average.

The estimated workplace injury frequency rate for 2012 is 2.99 per 100 FTEs. This is a slight decrease from 2011 (3.09), and is well below the five-year average target of 3.29.

RESULT

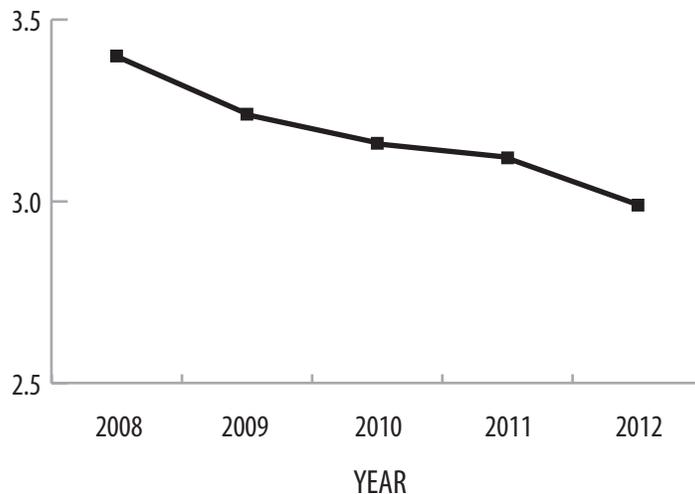


TARGET/DETAILS

The lost-time workplace injury frequency rate per 100 FTE in New Brunswick will be lower than the Canadian average.

Lost-time frequency continues to remain below the national average as reported by the Association of Workers' Compensation Boards of Canada. At 1.26 in 2011, New Brunswick's lost time injury frequency remains one of the lowest in the country. (AWCBC data for 2012 is not complete at press time.)

Workplace accident frequency per 100 FTEs



Other safety-related efforts in 2012 include:

- Number of workers in active focus industries in 2012: 7,517
- Lost-time injury rate for nursing care facilities in 2012 was 4.35%, and the previous five-year average was 4.89%.
- We continued to work with individual firms, that are identified by their accident history as compared to their industry. There are currently 91 firms that are receiving assistance in injury reduction and infrastructure building objectives. These efforts continue to bear fruit as witnessed in a 9.7% decrease in injury frequency from 2011 to 2012.
- Number of workplace inspections: 9,148
- Number of workplaces inspected: 2,199
- Number of orders written under the *Occupational Health and Safety Act* and regulations: 7,685
- Number of participants in JHSC training workshops held in 2012: 1,620
- Number of health and safety exposures for youth: 68,611
- Our electrical safety campaign with NB Power garnered us second place at the annual American Association of State Compensation Insurance Funds (AASCIF) Communications Awards.
- A revision of our strategy around the delivery of education services, to make sure the programs we're delivering reflect both the accidents that are happening and the most efficient use of our team and resources.

"An accident frequency rate of 2.99 reflects many years of hard work and planning. Accomplishing this milestone takes us into another realm.

We're working in the margins now, making change in smaller increments. Driving change at that level takes discipline, and the data required to reveal root causes. We're digging deep."

**Shelly Dauphinee, Vice-president,
WorkSafe Services**

SERVICE GOAL

We will provide effective programs and services, implemented with care, compassion, efficiency, promptness and fairness, to benefit both workers and employers.

RESULT

n/a

TARGET/DETAILS

We will maintain or exceed the high level of satisfaction, in excess of 80%, that both our injured worker and employer clients have come to expect.

"In 2012 we began the process of renewing our client service focus, launching a successful pilot on service excellence training. There's a passion for service delivery in our front line teams: if they can do something better, they want to learn how. It's a rewarding process."

Shelly Dauphinee, Vice-president,
WorkSafe Services

"A final comment – my patient repeatedly expressed his appreciation and gratitude to the care he received at WRC from his therapist. In a severe multiple trauma case such as this, the value of such a dedicated therapist cannot be overemphasized. Overall, considering the magnitude of the initial trauma, it is quite amazing that my patient has recovered to his current level."

The concluding note from
Dr. Eric McCartney in his report to
WorkSafeNB regarding a patient he saw
for a Permanent Partial Impairment
assessment

Client Satisfaction Index

The Client Satisfaction Index is a survey tool designed to examine injured workers' and employers' satisfaction with WorkSafeNB's delivery of service. It was not completed in 2012, so we could initiate a comprehensive evaluation and assessment process of the tool to better understand the needs of all our client groups.

Other service-related efforts in 2012 include:

- A survey of other jurisdictions to compare services offered to pension and long term disability clients, in an effort to better serve this group.
- Implementing initiatives to strengthen the service culture within operational services. Activities to date include defining general service standards with an emphasis on timely services and Excellence in Customer Service training for front line staff.
- *Public Interest Disclosure Act*
The *Public Interest Disclosure Act* encourages employees in the provincial public service to report any occurrences of wrongdoing in the workplace that are potentially unlawful, dangerous to the public or harmful to the public interest. The Act protects employees against reprisal for disclosures and provides a fair and objective process for those accused of wrongdoing.

As a Crown corporation, WorkSafeNB is obligated to reveal in this annual report the number of disclosures received and acted or not acted upon; the number of investigations begun as a result of a disclosure; the number of claims referred from the Conflict of Interest Commissioner and acted or not acted upon; and, the number of investigations begun as a result of such claims. There were no disclosures or claims made against a WorkSafeNB employee under the *Public Interest Disclosure Act*.

- *Official Languages Act*
We recognize our obligations and are committed to providing quality services in the public's official language of choice. There were no complaints under the *Official Languages Act*.
- *Translation Services*
We translated or co-ordinated the translation of 574,932 words.
- *Website visits*
91,548 unique visitors came to our websites.

Average number of days from injury to first cheque

	2011	2012
Manageable claims	19.1	19.6

Claims adjudication

	2011	2012
Claims adjudicated	12,081	12,080
Claims rejected	1,329	1,696
Claims accepted - lost time	5,688	5,320
Claims accepted - no lost time	4,998	5,082

"Just a quick note thanking you for the well-executed training session regarding the responsibilities and duties of new and existing JHSC members. I left the training session well informed. So often many training sessions become almost unbearable to sit through, with little or nothing gained; this was not the case - your methods of instructing were interesting, informative and polished. Keep up the good work! I look forward to participating in other courses you may undertake."

Note received from a JHSC training course participant

RETURN TO WORK GOAL

We will decrease the time by which injured workers safely return or are ready to safely return to employment.

RESULT



TARGET/DETAILS

The average paid compensation days for claimants with a return to work goal will be lower than the previous five-year average. (The target for 2012 was 60.2 days).

Our average claim duration (average paid days) for 2012 is 58.7 days and it is lower than the previous five-year average, our target, which was set at 60.2 days.

Days of paid compensation

Previous years have been restated to reflect current information.

	2008	2009	2010	2011	2012
Average days	61.3	64.5	56.9	53.9	58.7

Claimants with a return-to-work goal and full LTDs

	2008	2009	2010	2011	2012
Returned to work or pre-accident employment status	95.9%	95.7%	96.0%	96.5%	96.5%
Not returned to work	1.6%	1.8%	1.9%	1.6%	1.6%
Full LTD	2.5%	2.5%	2.1%	1.9%	1.9%

In 2012, 96.5% (3,956 clients) returned to work or were ready to return to work immediately following their rehabilitation; 1.9% (79 clients) were not capable of any employment following their workplace injury and are receiving full long-term disability benefits; 1.6% (64 clients) were not re-employed when their claim was closed.

BELOW:

**Brad Smith, Mechanic
Department of Transportation**

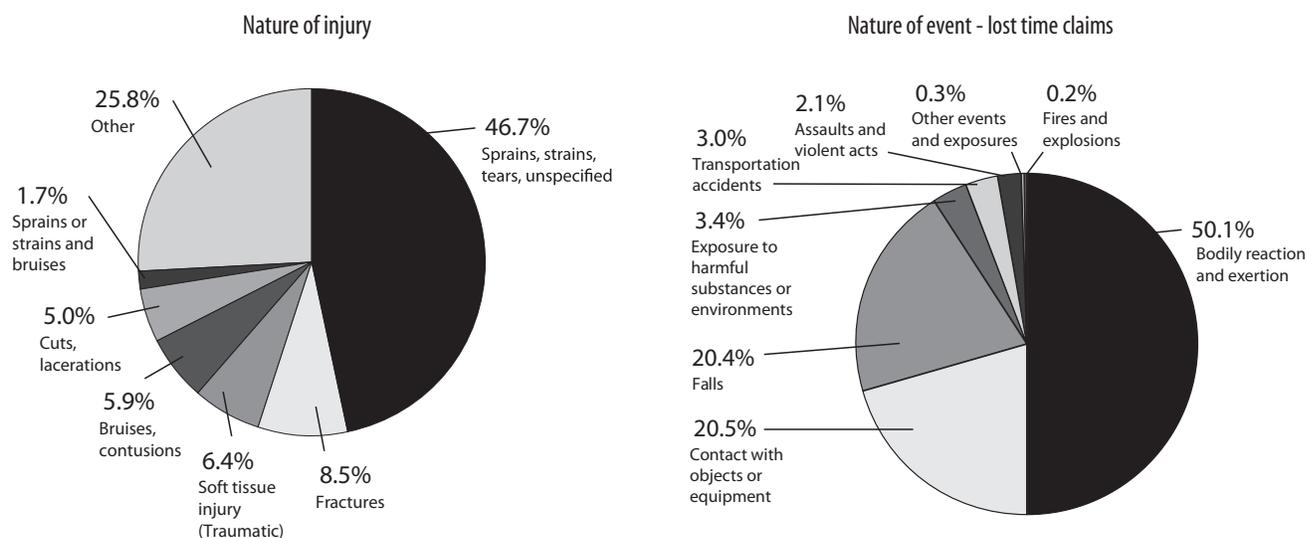
Brad was injured at work when a steel splinter became infected and complications arose, eventually causing him to require open-heart surgery and a permanent pacemaker. Great employer support, combined with Brad's positive attitude and his desire to get back to his job resulted in a great return-to-work experience.



To help achieve the RTW Strategy, "Advancing and implementing leading practices in medical management", WorkSafeNB regularly and comprehensively reviews services for injured workers to identify opportunities for improvement in line with best practice.

Other RTW-related efforts in 2012 include:

- Continued roll-out of our shoulder program – a best practice medical and rehabilitation program to assess and treat shoulder soft tissue injuries – the initiative allows clients to immediately receive assessment and treatment from a select network of physiotherapists who can refer directly to a surgeon as required, instead of going through the traditional medical referral system and then waiting for potentially unnecessary referrals. The program's positive results, which provides for the right treatment at the right time, have won it a national award. We have developed a similarly-structured low back injury program which was launched in April.
- The launch of a new program for case-managing and treating traumatic psychological injuries. A continuum of care, based on research and environmental scan, was developed by WorkSafeNB and implemented in collaboration with employers and treatment providers.
- Taking advantage of the learning achieved in a direct-referral pilot project, giving certain employers in our nursing home partnership the ability to refer workers directly to physiotherapists for timely clinical and functional assessment and treatment, facilitating an early and safe return to work.



- An audit of our transitional return to work process found that it played an important part in increasing our return-to-work rate, and improving its durability over time. The process involves the client returning to their place of work, accompanied by an occupational therapist (OT), to perform their duties as part of their treatment. The OT helps set the client up at the workplace, watches their performance, identifies barriers and manages symptoms – and then brings that information back to the team at the WRC for evaluation and planning.
- WorkSafeNB provides pension and long-term disability benefits to workers with a residual disability resulting from the accident. At the end of the year, there were 961 pre-1982 accident pensioners, 470 widows or dependants, and 2,483 injured workers receiving long-term disability benefits.

Number of claims processed in 2012 by type (in thousands)

	2008	2009	2010	2011	2012
Lost time	6.5	6.1	6.0	5.7	5.3
Health care only	5.7	5.3	5.2	5.0	5.1

Benefit payments (in millions)

	2008	2009	2010	2011	2012
Current year injuries	24.3	24.8	26.0	25.7	27.3
Prior years' injuries	110.3	111.3	111.0	111.0	112.1

Short-term disability and rehabilitation and health care payments (in millions)

	2008	2009	2010	2011	2012
Short-term disability and rehabilitation payments	43.9	41.3	37.7	36.1	35.7
Health care payments	42.0	44.5	46.7	46.2	48.0

BALANCE GOAL

We will provide the best possible benefits to injured workers while maintaining the lowest possible assessment rates for employers.

RESULT



TARGET/DETAILS

At a minimum, we will maintain a 100% funded liability.

Funded liability and investment portfolio

Investments held to meet future benefit obligations for past injuries reached \$1.2 billion at the end of 2012, representing a 126.7% funded liability. WorkSafeNB's investment portfolio produced an annual return of 10.89%.

"Our results speak to efforts made on both sides of our business. We're talking about our publicity campaigns, the programs we have in place to facilitate an early and safe return to work, and our work with employers and employer groups to move toward a culture of safety."

We have seen a lot of positive change over the past 10 years."

Peter Murphy, Vice-president,
Corporate Services

Funding history

	2008	2009	2010	2011	2012
Percentage funded	87.7	101.6	111.5	116.9	126.7

Performance objective 1

The investment portfolio's rate of return is to exceed the increase in the CPI +4.0% on a four-year moving average basis.

Four years ended	2009	2010	2011	2012
WorkSafeNB	2.2%	1.6%	2.4%	10.4%
CPI +4.0%	5.4%	5.6%	5.6%	5.7%

Performance objective 2

The investment portfolio's rate of return is to exceed the return generated by the investment policy defined benchmark portfolio by 0.65%, on a four-year moving average basis.

Four years ended	2009	2010	2011	2012
WorkSafeNB	2.2%	1.6%	2.4%	10.4%
Benchmark +0.65%	2.5%	1.6%	1.7%	10.6%

Benefits to clients

Payments to injured workers or third parties on their behalf totalled \$139.4 million, a 2% increase from 2011 payments of \$136.6 million.

Assessment rate

The 2012 provisional average assessment rate of \$1.70 represents a \$0.30 decrease from the 2011 provisional rate. New Brunswick's rate remains the lowest in Atlantic Canada as WorkSafeNB continues to focus on providing a balanced and sustainable system in a challenging economic environment.

Average assessment rates by jurisdiction

Note: the average assessment rate is influenced by industry mix, varying benefit levels and earning ceilings, the extent of industry coverage, the degree of funding liabilities, and the methodology used to calculate the average. Therefore, caution should be used when drawing comparisons across jurisdictions.

Province/Territory	2011 actual	2012 provisional	2013 provisional
AB	\$1.22	\$1.22	\$1.12
BC	\$1.54	\$1.54	\$1.62
MB	\$1.50	\$1.50	\$1.50
SK	\$1.61	\$1.60	\$1.58
NT/NU	\$1.73	\$1.77	\$2.05
NB	\$2.00	\$1.70	\$1.44
PE	\$2.05	\$1.99	\$1.97
QC	\$2.19	\$2.13	\$2.08
ON	\$2.35	\$2.40	N/A
NS	\$2.65	\$2.65	\$2.65
NF	\$2.75	\$2.75	\$2.75
YT	\$2.49	\$2.39	\$2.34

"In the spring of 2012, a new policy was approved by the board that speaks directly to our balance goal. It creates a discipline around improvements to benefits for injured workers. Instead of approaching each scenario on a case-by-case basis, now we manage the process according to a set of rules. We cost it, review the legalities, and then evaluate impact by conducting systematic research before making a decision."

Carolyn MacDonald, Director, Planning and Policy

Investigation initiatives

WorkSafeNB conducted 612 investigations in 2012. These investigations not only serve to protect our system, but to gather information for the Adjudication and Benefit Services Department to help make case decisions. The number of referrals increases annually.

Third party actions

Third party action recoveries provided cost relief to employers of approximately \$1 million in 2012. Injured workers received \$332,600, representing the amount received by third party settlements or judgments in excess of claim costs booked by WorkSafeNB.

Other balance-related efforts in 2012 include:

- Our board of directors identified an opportunity to improve benefits under the *Workers' Compensation Act* and recommended to government changes that would increase the benefits under ss 38.5 (burial and related expenses) and provide an additional lump sum benefit to the estate of deceased workers. These changes received royal assent on December 20, 2012 and are now in effect.
- Maintaining our disciplined approach to financial management.
- New IT initiatives designed to reduce the need for administrative involvement, including the electronic indexing of invoices from select physiotherapists, and changes to our billing arrangement with Blue Cross.

STAFF SATISFACTION AND ENGAGEMENT GOAL

Our employees will feel their work is valuable and makes a difference, motivated by the understanding of how their role and individual contribution is critical to achieving our vision, mission, mandate, values and goals.

RESULT



TARGET/DETAILS

Employee satisfaction and engagement levels will meet or exceed the previous five-year average.

In 2012, 93% of employees indicated they find WorkSafeNB “a good place to work,” as measured by the annual staff satisfaction survey. This is an increase of 5% over 2011, and exceeds the five-year average of 87.6% (2007-2011). Responses to a survey question that measures employee engagement indicate that 94% of our employees are committed to their work and believe it is valuable, makes a difference and contributes to the organizational goals. (In 2013 we will have enough data to be able to compare to the five-year average.)

Staff satisfaction and engagement

Target for 2012: 87.6%

	2007	2008	2009	2010	2011	2012
Satisfaction	87%	86%	86%	91%	88%	93%
Engagement	n/a	91%	91%	94%	93%	94%

Other indicators that will be measured in support of the goals and compared to the most recent five-year average include:

Other indicators measured in support of this goal

Absenteeism

On average, employees were absent from work 9.34 days, an increase over the five-year average of 8.98 days.

Absenteeism

	2007	2008	2009	2010	2011	2012
Days/person	8.73	9.11	9.36	8.30	9.37	9.34

Health and safety

There were seven claims accepted from WorkSafeNB staff in 2012, representing 1.6 accepted claims per 100 full-time equivalent (FTE) workers, and lower than the five-year average of 3.02. None of these were lost-time claims. WorkSafeNB's active incident and hazard reporting procedure supports the positive health and safety environment. In 2012, the health and safety index from our survey was 89%.

Accepted claims for staff per 100 FTEs

	2007	2008	2009	2010	2011	2012
Number of claims	3.49	3.21	3.10	3.14	2.20	1.56

Staff turnover

In 2012, 24 employees left the organization, including 11 retirements. This indicates a staff turnover rate of 5.3%, and is lower than the five-year average of 5.98%. Retirements accounted for 2.5% of the turnover rate, and filling those vacancies was not an issue. We predict retirements will account for 50% of the turnover in the next five years, consistent with the current trend. We recognize the risk. Our Growing Leaders Program and early recruitment address this risk.

Staff turnover

Target for 2012: 5.98%

	2007	2008	2009	2010	2011	2012
Percentage	5.55	6.38	7.08	6.45	4.46	5.35

Other staff satisfaction-related efforts in 2012 include:

- We conducted negotiations with CUPE Local 1866.
- The WRC's wellness committee won the Heart and Stroke Foundation's Bronze Wellness at Heart award.
- The physiotherapists at the WRC won the PR Initiative Award from their professional body for the "PT – a ton of help" event that raised money and food donations for the River Valley Food Bank through a 12-hour ball hockey tournament.



APPEALS TRIBUNAL

transition

2012 was a year of transition in the Appeals Tribunal with the departure of most of our long-serving vice-chairpersons and new reappointments that changed the face of the Tribunal. This all occurred within the context of our receipt of the highest number of appeals ever (799) but reductions in overall processing times. While our inventory of appeals is large, the efforts by the vice-chairpersons, members and staff were significant. The Tribunal has achieved its goal of rendering fair, impartial, consistent and timely decisions in keeping with its high volume, short hearing duration mandate.

2012 was also a transitional year in the sense that the Court of Appeal of New Brunswick in its April 2012 ruling in Irving Limited (Sussex Sawmill) v. Wayne Douthwright and Workplace Health, Safety and Compensation Commission, 2012 NBCA 35 supported the Tribunal and its approach to the reduction of injured workers' pensions from compensation benefits. Acceptance of the essence of the ruling was hard-fought and the Tribunal hopes it will be implemented in all respects.



Ron E. Gaffney, Q.C.
Chairperson

Appeals received: 799

This is the highest amount in the history of the Appeals Tribunal. It is an increase of one from 2011, when we had been able to handle the increase better since we had a full complement of vice-chairpersons.

Appeals received

2008	2009	2010	2011	2012
585	582	702	798	799

Appeals resolved: 732

This is a 7.1% decrease from 2011, due to delays in vice-chairperson appointments. Without a full complement of vice-chairpersons, we could not schedule as many hearing days each month so fewer appeals were processed.

Appeals resolved

2008	2009	2010	2011	2012
672	574	714	788	732

Time to schedule appeals: ↓ 20% from 2011.

Overall processing time (from application accepted to decision mailed): ↓ 25% from 2011.

Processing time from hearing to decision mailed: ↓ 36% from 2011.

Six vice-chairpersons' terms ended in 2012:

- Prisca Levesque
- Achille Maillet
- Jean-Guy Maillet
- Philip Reeves
- Kathy Rogers
- James Whelly

Newly appointed vice-chairpersons (appointed in Sept 2012):

- Grant Brenan
- Heather Cossaboom
- Nargis Kheraj
- Louis-Marie Melanson
- Réal Noël

APPEALS TRIBUNAL MEMBERS AT DECEMBER 31, 2012

Chairperson > Ronald E. Gaffney, Q.C.

Appointed by the Lieutenant-Governor in Council and responsible to the board of directors for the operations of the Appeals Tribunal.

Vice-Chairpersons > Grant Brenan, Heather Cossaboom, Guilda Fournier, Nargis Kheraj, Louis-Marie Melanson, Réal Noël, Raymond Wade.

Appointed by the Lieutenant-Governor in Council as deemed necessary by the chairperson in consultation with WorkSafeNB.

Appeals Panel Members – Workers' Representatives > Warren Desrochers, Paula Garant, Earl Garland, Linwood Lawrence, Gaston Malenfant, Wendy McGee, Claudia McKeil, Julie Pelletier, Line Savoie, Denny Vautour.

Appointed by the board of directors.

Appeals Panel Members – Employers' Representatives > Aldrice Comeau, Sherri Deveau, William Dixon, Donald Drury, George Greenlaw, Marc Long, Fraser MacLeod, Arnold Mallais, Gordon Roy, Lucien Sonier, Joe Veriker.

Appointed by the board of directors.

Appeals initiated by:

	2008	2009	2010	2011	2012
Injured workers	90%	87%	90%	88%	92%
Employers	10%	13%	10%	12%	8%

Appeals results:

	2008	2009	2010	2011	2012
Accepted	68%	68%	68%	75%	79%
Partial	6%	5%	6%	5%	5%
Denied	25%	26%	26%	19%	16%
Withdrawn (at hearing)	1%	1%	0%	1%	0%

MANAGEMENT DISCUSSION AND ANALYSIS OF 2012 FINANCIAL STATEMENTS AND OPERATING RESULTS

The Management Discussion and Analysis (MD&A) provides management's perspective on key issues that affect the current and future performance of WorkSafeNB. The MD&A, prepared as at March 14, 2013, should be read in conjunction with the audited financial statements and supporting notes for the year ended December 31, 2012.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements about certain matters that are, by their nature, subject to many risks and uncertainties, which may cause actual results to differ materially from the statements made herein. Forward-looking statements include, but are not limited to, WorkSafeNB's objectives, strategies, targeted and expected financial results, and the outlook for its business and for the New Brunswick and global economies. Risks and uncertainties include, but are not limited to, changing market, industry and general economic factors or conditions; changes in legislation affecting WorkSafeNB policies and practices; changes in accounting standards; the ability to retain and recruit qualified personnel; and, other risks, known or unknown. The reader is hereby cautioned not to place undue reliance on these forward-looking statements.

Overview of financial results <i>Financial highlights (\$000s)</i>	2012	2011
Portfolio investments	1,156,485	1,046,658
Benefits liabilities	1,023,620	1,030,463
Fund balance	278,703	177,664
Funding ratio	126.7%	116.9%
Premium income	164,595	189,914
Investment income	111,152	24,614
Claims costs incurred	132,588	119,263
Administration costs	39,215	37,505
Excess of income over expenses	101,039	54,952
Market rate of return on portfolio	10.89%	2.63%

WorkSafeNB recorded a surplus of \$101.0 million in 2012. This compares with a surplus of \$55.0 million in 2011. The surplus is primarily the result of higher than expected investment returns and lower than expected claims costs. Actual investment returns were 10.89% versus budgeted returns of 7.12%. Actual claims costs of \$132.6 million were 29.6% lower than the budgeted claims costs of \$188.4 million. This is primarily the result of declining accident frequency.

These operating results improved the funded position to \$278.7 million or 126.7%.

BALANCE SHEET

The key components of WorkSafeNB's balance sheet are its investments, benefits liabilities and fund balance.

Investments

The board of directors believes that WorkSafeNB's investment portfolio must be customized to reflect its purpose, time horizon, liquidity requirements, legal constraints and the risk tolerance of the stakeholders. The primary long-term investment risk is that the assets of the investment fund, together with the future income thereon, will be insufficient to pay the liabilities. The board relies on periodic asset liability studies to ensure that the investment strategy is suitable in light of the related liabilities.

Most of the investment portfolio is held to meet payment obligations that extend for many years into the future. As a consequence, the board takes a long-term approach to finding an acceptable risk/return trade-off via the investment strategy. WorkSafeNB's investment policies and practices are designed to maximize the probability of meeting its performance objectives over the long-term at an acceptable level of risk; from year-to-year, short-term fluctuations in financial markets could cause the investment portfolio to significantly over- or under-perform its long-term performance objectives.

The board believes that the most important factor in determining investment risk and return is asset mix. In 2011, the board completed an asset liability study, which was designed to help the board determine an appropriate asset mix given their risk tolerance, the nature of the liabilities and WorkSafeNB's financial position. As a result of the study, the board amended the policy asset mix. The migration to the new target policy asset mix is scheduled to be completed over the next few years.

WorkSafeNB's current policy asset mix consists of 25% Canadian bonds, 5% Canadian real return bonds, 17% Canadian equities, 17% U.S. equities, 17% international (EAFE) equities, 4% emerging markets equities and 15% real estate. The migration to the new target policy asset mix will involve reducing the Canadian bonds allocation to 20%, reducing the Canadian equities allocation to 16%, reducing the U.S. equities allocation to 15%, reducing the international (EAFE) equities allocation to 15%, adding a 5% allocation to infrastructure, and adding a 5% allocation to an opportunistic strategy.

The movement towards the new target policy asset mix is designed to reduce the volatility in WorkSafeNB's annually reported operating income, funded ratio and assessment rates. WorkSafeNB plans to conduct another asset liability study in 2016.

The table below shows the asset values by investment type.

Investments (\$000s)	2012	2011
Forward foreign exchange contracts	(722)	3,360
Fixed income	282,223	287,864
Equities	643,419	586,910
Real return bonds	56,035	58,262
Real estate	175,530	110,262
Total investments	1,156,485	1,046,658

WorkSafeNB's investment strategy is documented in the Statement of Investment Philosophy and Beliefs policy and the Investment Goals and Objectives policy. The Statement of Investment Philosophy and Beliefs policy documents the governance structure for investments, the board's commitment to a disciplined approach to investing, the board's view on diversification and the importance of the asset allocation decision, along with the board's view on ethics and investment education. The Investment Goals and Objectives policy identifies the policy asset mix, the performance objectives, and defines eligible investments and limits on risk concentrations. All of WorkSafeNB's investments are managed by independent external investment managers. The compliance of these portfolio managers with policy is monitored regularly. To minimize the volatility of returns, WorkSafeNB's portfolio is diversified among asset classes, industry sectors, geographic locations and individual securities. WorkSafeNB further diversifies by selecting investment managers with varying investment mandates and styles.

Benefits Liabilities

At the end of each fiscal year, WorkSafeNB determines its benefits liabilities for all accidents that have occurred to that date. These liabilities represent the actuarial present value of all future benefit and related administration costs. As at December 31, 2012, claim benefit liabilities were broken down as follows:

Benefits liabilities (\$000s)	2012	2011
Short-term disability and rehabilitation	79,740	86,391
Long-term disability	533,940	551,668
Survivor benefits	92,615	93,567
Health care	317,325	298,837
Total benefits liability	1,023,620	1,030,463

In 2012, the benefits liability decreased by \$6.84 million or about 0.66%. This is primarily the result of declining accident frequency.

Fund Balance

WorkSafeNB's funding policy specifies a funding goal (ratio of assets to liabilities) of 110%. This permitted excess of assets over liabilities reduces the impact of year-to-year fluctuations, therefore providing assessment rate stabilization and enhanced security that awarded benefits will be met. The assessment revenue raised in any year from assessed employers may include or be reduced by an amount designed to allow WorkSafeNB to attain its funding goal. The funded ratio at December 31, 2012 is 126.7% (2011 – 116.9%). Under the *Workers' Compensation Act*, a minimum funding level of 100% is required with any shortfall to be recovered over a period of five years.

REVENUES

WorkSafeNB's revenue is derived from two primary sources: assessment income and investment income. In 2012, revenues totalled \$275.7 million, a 28.5% increase from 2011 revenues of \$214.6 million. The distribution by source was 60% assessment income and 40% investment income. (2011: 89% assessment income, 11% investment income).

Assessment Income

Assessment income consists of premiums from assessed employers and revenue from self-insured employers. Assessment income decreased 13.3% from \$189.9 million in 2011 to \$164.6 million in 2012. Most of the decrease is attributable to a decrease in the provisional average assessment rate from \$2.00 in 2011 to \$1.70 in 2012. Employer payrolls increased from \$8.19 billion to \$8.26 billion primarily because of the annual increase to the maximum insurable earnings. In 2012, the maximum insurable earnings increased from \$56,700 to \$58,100.

Assessment income (\$000s)	2012	2011
Assessed employers	139,303	162,428
Self-insured employers	25,292	27,486
Total assessment income	164,595	189,914
Average assessment rate	\$1.70	\$2.00
Assessable payroll	\$8.26 billion	\$8.19 billion

Assessed employers pay premiums based on their assessment rate and assessable payroll. The assessment rate is applied to each \$100 of assessable payroll to arrive at the total premium.

Revenue from self-insured employers reflect recoveries of claim payments made on behalf of these employers, an allocation of administration costs to manage the claims, and the change in the actuarial valuation of self-insured employers' benefit liabilities.

Investment Income

Investment income increased from \$24.6 million in 2011 to \$111.2 million in 2012. Most of this increase is attributable to larger unrealized gains on WorkSafeNB's equity investments for the year ended December 31, 2012.

Investment income is an important revenue stream for WorkSafeNB. It is relied on to supplement assessments to cover total expenses for the year. Built into the valuation of the benefits liabilities and into the assessment rate-setting model is the long-term assumption that WorkSafeNB's investments will generate an annual real rate of return of 4.0%. The primary goal of the investment portfolio is to earn a long-term average real return that meets or exceeds this actuarial net discount rate. In 2012, the real rate of return on the portfolio was 10.06%. For the 20-year period ended December 31, 2012, the annualized real rate of return on the portfolio was 5.79%.

Investment income ((\$000s))	2012	2011
Interest and dividends	27,808	28,018
Net realized gains on investments	33,941	24,036
Change in net unrealized gains on investments	53,532	(23,673)
Portfolio management expenses	(4,129)	(3,767)
Total investment income	111,152	24,614

EXPENSES

WorkSafeNB's expenses consist of claims costs and other operating costs that include administration costs, legislative obligations and the costs of administering the Appeals Tribunal. In 2012, expenses increased by 9.4% from \$159.7 million to \$174.7 million.

Claims Costs

As reported in the Statement of Operations and Fund Balance, claims costs represent costs incurred in the current year for current and prior year injuries. These costs include benefit payments made and changes in the actuarial valuation of the benefits liability. In 2012, these costs totalled \$132.6 million, a 11.1% increase from the \$119.3 million incurred in 2011 but well under budgeted claims costs of \$188.4 million. This positive budget variance is primarily the result of declining accident frequency.

Fundamental to the actuarial valuation are the discount rates used to value the liabilities. The assumed real rate of return remained unchanged at 4%. However, the assumed inflation rate was reduced from 3% to 2.5%. This resulted in a liability increase of \$5.2 million.

Claims costs (\$000s)	2012	2011
Short-term disability and rehabilitation	29,046	31,438
Long-term disability	29,342	24,883
Survivor benefits	7,670	8,094
Health care	66,530	54,848
Total claim costs	132,588	119,263

NB Court of Appeals Decision

Claims costs and benefit liabilities reflect the impact of a 2012 NB Court of Appeal decision with respect to Canada Pension Plan Retirement benefits. The impact on claims costs is estimated to be \$5.3 million. Of this, \$2.1 million relates to retroactive amounts that were due to injured workers. This amount has been paid in full. The remaining \$3.2 million relates to ongoing and expected future payments and the associated liability will be discharged as payments are made.

Operating Costs

In 2012, WorkSafeNB's administration costs increased from \$37.5 million to \$39.2 million, but remained well below budgeted costs of \$41.4 million.

WorkSafeNB is required by legislation to reimburse the provincial government for operating costs of the workers' and employers' advocates. In 2012, WorkSafeNB incurred \$917 thousand for these costs (2011 – \$876 thousand).

In 2012, WorkSafeNB provided \$440 thousand (2011 – \$440 thousand) of financial assistance to two safety associations in accordance with the *Workers' Compensation (WC) Act*. The money paid is levied against all employers in the industries represented by the safety associations and is included as part of assessment income.

Operating costs (\$000s)	2012	2011
Administration costs	39,215	37,505
Legislative obligations	1,357	1,316
Appeals tribunal	1,548	1,592
Total operating costs	42,120	40,413

KEY FINANCIAL DRIVERS

Employment, Accident Frequency and Claim Duration

Work-related injuries arise from employment. Changes in New Brunswick's employment base and trends in accident frequency and claim duration are the primary drivers of WorkSafeNB's operations and the key determinants of the assessment rates that employers pay.

In recent years, the employment base in New Brunswick has been growing but accident frequency has been declining. Claim duration has been declining but recent indicators suggest the trend is slowing.

Some of the forces driving the reductions are:

- An increased awareness of and acceptance of the need for good safety practices on the part of both workers and employers;
- The aging of the workforce (older workers tend to exhibit a lower accident frequency rate);
- WorkSafeNB's focus on high risk industries;

- A shift in the nature of industry in the province from high accident risk industries to lower risk industries;
- Changes in the way work is done in the higher risk industries.

Some of the forces positively influencing claim duration are:

- WorkSafeNB's focus on early intervention and safe return to work;
- A shift in the nature of industry in the province from high accident risk industries to lower risk industries;
- Economic factors that encourages early return to work.

Claim duration/severity is particularly important, as a relatively small number of claims accounts for a very sizable portion of benefit costs.

Inflation Rate

The inflation rate, or Canadian consumer price index (CPI) is a key driver because WorkSafeNB's future short-term disability, long-term disability, and survivor benefits are indexed annually based on the CPI.

The Bank of Canada's target for the core inflation rate is 2.0%. Over the past 10 years, the rate used for the indexation of lost-time benefits has ranged from a low of 0.73% to a high of 3.35%, with the average rate being 2.09%.

Investment Returns

WorkSafeNB collects assessments to cover the entire present and future expected costs of injuries incurred in a given year. The assessments collected are invested to produce an expected long-term average real return of 4.0%. This real return is the expected return in excess of inflation, as measured by the increase in the CPI. This return expectation is based on achieving investment returns similar to the historical long-term average returns for the asset classes in which the portfolio is invested.

World equity markets seemed to climb a "wall of worry" in 2012, posting strong gains despite ongoing macro concerns including the European sovereign debt crisis, a slowdown in Chinese growth and the fiscal cliff negotiations in the U.S. U.S equities, represented by the S&P 500 index, returned 13.43% in Canadian dollar terms for 2012. For the same period, Canadian equities gained 7.19%, and international (EAFE) equities gained 14.72%.

Canadian bonds experienced another year of positive returns, with the DEX Universe Bond Index returning 3.60%. Long bonds were even stronger, with the DEX Long Term Bond Index returning 5.21%. Canadian real estate also had another strong year, with the REALpac/IPD Canada Annual Property Index returning 14.1%.

WorkSafeNB's total investment portfolio earned a return of 10.89% in 2012. Inflation for the same period has averaged 0.83%, resulting in a real return of 10.06% for the period. This exceeds the expected real return objective by 6.06%. WorkSafeNB's investment return for the 20 years ended December 31, 2012 has averaged 7.60%. Inflation for the same period has averaged 1.81%, resulting in an average real return of 5.79% for the period. This exceeds the expected real return objective by 1.79%. While the expected average real return is 4.0% over long periods, over shorter periods the actual real rate of return can vary significantly due to short-term volatility in the financial markets where WorkSafeNB's portfolio is invested. The long-term fiscal strategy and investment policies document WorkSafeNB's strategy for maintaining investment and funding discipline in volatile markets. Based on the market value of the investment portfolio at December 31, 2012, each 1 percent of annual investment return over or under the expected return of CPI plus 4.0% translates to an excess or shortfall of approximately \$11.7 million.

Income Taxes

Income taxes are a key driver because loss of earnings benefits are based on a percentage of an injured worker's pre-accident earnings after tax. Significant changes to income tax rates or income tax exemptions may have a material impact on WorkSafeNB's benefits liability.

RISKS

Like any other organization, WorkSafeNB is susceptible to risks that, if unmitigated, could lead to significant financial consequences. WorkSafeNB has established controls, policies, directives and procedures to assist in minimizing risks. The Internal Audit Department, which reports to the president and CEO and the Financial Services Evaluation Committee of the board, regularly carries out operational and financial audits to test for compliance.

The risks that have the most severe consequences relate to benefit costs and investment performance.

Benefit Costs

Benefit costs are susceptible to many variables, including the state of the provincial economy, major projects, shifts in the nature of work in the province, workers and employers attitudes to health and safety, the aging of the workforce, employers' return-to-work practices, WorkSafeNB's effectiveness in processing and managing claims, and appeal decision results.

Non-controllable risks include the potential for legislated new benefits or expanded coverage of diseases, especially if applied retroactively. The occurrence of these types of events could carry substantial financial liability if introduced in New Brunswick.

Key aspects of the processes in place to mitigate benefit cost risks include:

- Established processes for managing claims in accordance with the *Workplace Health, Safety and Compensation Commission Act* and the *WC Act*.
- A disciplined strategic planning and risk assessment process.
- Targeted programs for high-risk industries.
- The use of sophisticated management information systems, which provide reliable and up-to-date data on the benefit risks to which the business is exposed at any point in time.
- The use of detailed internal monitoring tools which link actuarial valuation projections with the management information systems to monitor claims patterns.

Investment Performance

The board is responsible for setting WorkSafeNB's investment policy and has determined its asset mix policy using the results of an asset liability study which considered the nature of the liabilities, the board's risk tolerance and WorkSafeNB's financial position. The board and management have also established policies and directives to ensure that there are adequate internal control and risk-mitigation procedures in place for WorkSafeNB's investments. However, some investment risks are not directly controllable, such as significant market swings, geopolitical risks, and interest rate changes driven by the fiscal and trade policies of other countries. Significant year-to-year volatility in WorkSafeNB's reported results as a result of fluctuations in the market value of investments is likely to continue.

Strategic Plan and Risk Assessment

The context in which WorkSafeNB makes its strategic decisions is continuously changing. Trends and events within New Brunswick and across Canada are intricately linked to the achievement of our vision, with environmental, economic, and societal factors posing risks as well as opportunities for the organization. Each year, the Planning and Policy Department assists the board in its decision-making processes, by providing information to evaluate the internal and external environment in which WorkSafeNB operates. This information helps the board reaffirm or adjust its strategic direction to maximize opportunities and manage risks.

The *Strategic Plan & Risk Assessment 2012-2017*, available online at www.worksafenb.ca, summarizes the results of the annual planning process, with an emphasis on transparency and accountability. Based on its analysis in 2012, the board of directors:

- Reaffirmed its vision, mission, and values.
- Made a slight adjustment to its mandate.
- Reaffirmed its five strategic goals.
- Reaffirmed 29 strategies to achieve the goals.
- Identified and responded to 21 risks to achieving its strategic direction.
- Resourced 44 priorities related to legislative amendments, policy, policy evaluation and stakeholder engagement.

FUTURE OUTLOOK

WorkSafeNB's challenge in the near term will be to manage the business in light of economic uncertainty and to maintain the disciplined approach to managing the investment portfolio in turbulent markets. To achieve these goals, WorkSafeNB's business priorities are to build on those operational and financial strategies that have contributed to organizational success. Management will be closely monitoring economic and operating trends to proactively develop effective responses to emerging business issues.

Claims Management

WorkSafeNB continues to look for opportunities to improve outcomes. Maintaining current service levels and improving on an already high level of quality will be challenging tasks in the face of escalating costs and a tight market for qualified staff. However, the proven effectiveness of WorkSafeNB's service delivery model is a solid platform for continuing success, relying on the dedication and professionalism of its staff to deliver services with care, compassion, efficiency, promptness, and fairness.

WorkSafeNB has entered into an agreement with the Dalhousie Medical School for partial funding for a research chair in occupational medicine. The annual commitment of \$150,000 is for a five-year period beginning in 2010. Having a research chair may assist WorkSafeNB in meeting its return to work and balance goals and improve overall service delivery.

Financial Management

Given the uncertainty and risks associated with global markets, the ongoing challenge for WorkSafeNB's financial management is to maintain a planning and decision-making process to protect the integrity and stability of the Accident Fund. WorkSafeNB is a long-term investor with a strong financial position. This allows for patience and the ability to stay committed to proven investment principles and beliefs.

2013 Assessment Rate

In 2013, the provisional assessment rate will decrease from \$1.70 to \$1.44 per \$100 of insurable earnings. This decrease is attributable to declining accident frequency and claims costs, while insurable earnings continue to grow.

Labour Market

Canada's labour market is dramatically changing and, as in other industrialized countries, this means that the labour force is not only aging, but also shrinking. A variety of factors – declining birth rates, the beginning of retirement for the baby boomers, and continued out-migration to other provinces for employment opportunities – are aligning to create a perfect storm of factors resulting in a significant socioeconomic crisis in the province's near future. Sometime toward the middle of the next decade, and for the first time in at least a century, the number of people willing and available to work in Canada will be smaller than the number of jobs potentially available for them. After that point in time, a general labour shortage will become a normal fact of New Brunswick's economic life and, as a result, WorkSafeNB will find itself at a crossroads in terms of its social and economic future.

New Brunswick Economy¹

Economic growth remains slow in New Brunswick as investment activity has cooled amid a period of fiscal restraint. Real GDP growth is expected to underperform again in 2013 at 1.6%, though that will mark an improvement from the expected 1.0% pace in 2012.

Capital spending in both the public and private sectors remains weak as some major projects, including the Point Lepreau nuclear plant refurbishment and Potash Corp's Sussex mine, wind down. However, the flip side is that these completions should lead to higher output. Meantime, with U.S. growth still expected to be soft in the first half of the year and the dollar around parity, exports and manufacturing will face ongoing headwinds. However, as the U.S. economy returns to 3%-plus growth by the second half of the year, in part due to a housing recovery, the export sector should benefit.

1. Provincial Monitor, BMO Capital Markets, January 2013

The Province of New Brunswick revised its fiscal 2013 deficit estimate to \$357 million, or about 1.1% of GDP, from \$183 million projected in the budget. The worsened outlook is the combined result of weaker-than-expected tax revenues and higher-than-expected spending. Net debt is expected to rise by \$911 million this fiscal year, up from the budget estimate of \$739 million, leaving the net debt-to-GDP ratio at about 34.5%, still below Ontario and Quebec, but on pace to soon surpass Nova Scotia.

SUMMARY

WorkSafeNB is prepared to face these challenges through ongoing stakeholder consultation on key issues, ongoing innovation of its business, development of online systems enabling its clients to transact their WorkSafeNB business simply and efficiently, employee retention and development strategies aimed at ensuring that the organization continues to be a top employer, and closely monitoring economic and operating trends to proactively develop effective responses to emerging business issues.

Together with its partners, WorkSafeNB will continue to look for ways to minimize the impact of workplace illness and injury for New Brunswickers and their employers. Through clear focus on the core business and commitment to its core values, WorkSafeNB remains poised to face the future.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

WorkSafeNB's financial statements were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgments, estimates and actuarial assumptions. This responsibility includes selecting and applying appropriate accounting principles and actuarial assumptions consistent with International Financial Reporting Standards.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced, and that assets are properly safeguarded. The Internal Audit Department conducts reviews to ensure that WorkSafeNB's internal controls and procedures are adequate, consistent, and applied uniformly.

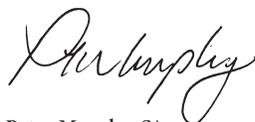
The board of directors is responsible for evaluating management in the performance of financial reporting responsibilities, and has approved the financial statements included in this annual report. The board of directors is assisted by the Financial Services Evaluation Committee, which reviews and recommends approval of the financial statements and meets periodically with management, the independent actuaries, the independent auditors and the internal auditor, concerning internal controls and all other matters relating to financial reporting.

Morneau Shepell, WorkSafeNB's independent consulting actuary, has completed an actuarial valuation of the benefits liabilities included in WorkSafeNB's financial statements and reported thereon in accordance with accepted actuarial principles.

Grant Thornton, WorkSafeNB's independent auditors, has performed an audit of WorkSafeNB's financial statements in accordance with International Financial Reporting Standards. The Independent Auditors' Report outlines the scope of this independent audit and includes the opinion expressed on the financial statements.



Gerard Adams, CA
President and Chief Executive Officer



Peter Murphy, CA
Vice-president, Corporate Services and Chief Financial Officer

ACTUARIAL STATEMENT OF OPINION

I have completed the actuarial valuation of the benefit liabilities of WorkSafeNB as at December 31, 2012 (the “valuation date”). Details of the data, actuarial assumptions, valuation methods and results are included in the actuarial valuation report as at the valuation date, of which this statement of opinion forms part.

1. The data on which the valuation is based were provided by WorkSafeNB. We applied such checks of reasonableness of the data as we considered appropriate. In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.
2. The economic assumptions are consistent with WorkSafeNB’s long term fiscal strategy and investment policies. The discount rates used are disclosed in note 3 to the financial statements. In my opinion, the assumptions are appropriate for the purpose of the valuation.
3. In my opinion, the methods employed in the valuation are appropriate for the purpose of the valuation.
4. The estimate of the actuarial liabilities as at the valuation date is \$886,757,000 for assessed employers and \$136,863,000 for self-insured employers for a total of \$1,023,620,000. This includes provisions for benefits and future administrative expenses expected to be paid after the valuation date for claims that occurred on or before the valuation date. It also includes a provision for potential long latency occupational disease claims associated with exposure that occurred on or before the valuation date.
5. The liability as at the valuation date for pension contributions and accumulated interest already set aside by WorkSafeNB up to the valuation date for purposes of providing pension benefits at age 65 to injured workers and dependent spouses of deceased workers is included in the above figures and was obtained from WorkSafeNB’s Corporate Services Division staff.

In my opinion the amount of the benefits liabilities makes appropriate provision for all personal injury compensation obligations, and the financial statements fairly present the results of the valuation.
6. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.
7. The valuation is based on the provisions of the *Workers’ Compensation Act of New Brunswick* and on WorkSafeNB’s policies and practices in effect on the valuation date. Only benefits covered by the *Workers’ Compensation Act* are included in this valuation.



Conrad Ferguson, F.C.I.A.
Morneau Shepell
March 2013

INDEPENDENT AUDITORS' REPORT

To the board of directors:
WorkSafeNB

We have audited the accompanying financial statements of Workplace Health, Safety and Compensation Commission of New Brunswick (operating as WorkSafeNB), which comprise of the balance sheet as at December 31, 2012 and the statements of operations and fund balance and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian Generally Accepted Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of WorkSafeNB as at December 31, 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Saint John, New Brunswick
March 14, 2013



Grant Thornton LLP
Chartered Accountants

FINANCIAL STATEMENTS
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FINANCIAL STATEMENTS

BALANCE SHEET

As at December 31

	2012 (000s)	2011 (000s)
ASSETS		
Cash and short-term investments	\$ 16,611	\$ 21,774
Receivables and other (Note 5)	10,821	13,134
Recoverable benefits liabilities	128,377	136,495
Investments (Notes 6 and 7)	1,156,485	1,046,658
Capital assets (Note 8)	9,485	9,641
	<u>\$ 1,321,779</u>	<u>\$ 1,227,702</u>
LIABILITIES AND FUND BALANCE		
Payables and accruals (Note 9)	\$ 19,456	\$ 19,575
Benefits liabilities (Notes 3, 4 and 10)	1,023,620	1,030,463
Total liabilities	1,043,076	1,050,038
Fund balance	278,703	177,664
	<u>\$ 1,321,779</u>	<u>\$ 1,227,702</u>

On behalf of the board of directors:



Hector Losier
Financial Services Evaluation Committee, Board of Directors



Jean Stewart
Financial Services Evaluation Committee, Board of Directors



Sharon Tucker
Chairperson, Board of Directors

The accompanying notes form an integral part of the financial statements.

FINANCIAL STATEMENTS
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STATEMENT OF OPERATIONS AND FUND BALANCE
For the year ended December 31

OPERATIONS

	2012 (000s)		2011 (000s)
	Budget	Actual	Actual
Income			
Assessments (Note 11)	\$ 143,827	\$ 139,303	\$ 162,428
Self-insured employers (Note 12)	30,521	25,292	27,486
Investments (Note 6)	72,551	111,152	24,614
Province of New Brunswick (Note 16)	—	—	100
	<u>246,899</u>	<u>275,747</u>	<u>214,628</u>
Expenses			
Claims costs incurred (Note 10)			
Short-term disability and rehabilitation	36,408	29,046	31,438
Long-term disability	61,240	29,342	24,883
Survivor benefits	7,218	7,670	8,094
Health care	83,484	66,530	54,848
	<u>188,350</u>	<u>132,588</u>	<u>119,263</u>
Administration (Note 13)	41,369	39,215	37,505
Legislative obligations (Note 14)	1,375	1,357	1,316
Appeals Tribunal	1,843	1,548	1,592
	<u>44,587</u>	<u>42,120</u>	<u>40,413</u>
Total expenses	<u>232,937</u>	<u>174,708</u>	<u>159,676</u>
Excess of income over expenses for the year	<u>\$ 13,962</u>	<u>\$ 101,039</u>	<u>\$ 54,952</u>

FUND BALANCE

Fund balance, beginning of year	\$ 177,664	\$ 122,712
Excess of income over expenses for the year	<u>101,039</u>	<u>54,952</u>
Fund balance, end of year	<u>\$ 278,703</u>	<u>\$ 177,664</u>

The accompanying notes form an integral part of the financial statements.

FINANCIAL STATEMENTS

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STATEMENT OF CASH FLOWS

For the year ended December 31

	2012 (000s)	2011 (000s)
Cash flow from operating activities		
Cash received from:		
Assessed employers	\$ 140,543	\$ 164,307
Self-insured employers	33,244	31,544
Interest and dividends	31,629	31,431
Province of New Brunswick	—	400
	<u>205,416</u>	<u>227,682</u>
 Cash paid to:		
Injured workers or third parties on their behalf (Note 10)	139,431	136,624
Suppliers and employees, for administration and other services	44,224	41,646
	<u>183,655</u>	<u>178,270</u>
 Net cash provided by operating activities	21,761	49,412
 Cash flow from investing activities		
Cash received from:		
Sale of investments	310,890	290,350
 Cash paid for:		
Purchase of investments	336,254	344,763
Purchase of capital assets	1,560	1,599
	<u>337,814</u>	<u>346,362</u>
 Net cash used in investing activities	<u>(26,924)</u>	<u>(56,012)</u>
Decrease in cash during the year	(5,163)	(6,600)
Cash and short-term investments, beginning of year	21,774	28,374
Cash and short-term investments, end of year	<u>\$ 16,611</u>	<u>\$ 21,774</u>

The accompanying notes form an integral part of the financial statements.

FINANCIAL STATEMENTS

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. AUTHORITY AND NATURE OF OPERATIONS

The Workplace Health, Safety and Compensation Commission (operating as “WorkSafeNB”) was established by the New Brunswick Legislature effective January 1, 1995, under the *Workplace Health, Safety and Compensation Commission Act* (the “*WHSCC Act*”). WorkSafeNB, having its head office at 1 Portland Street, Saint John, New Brunswick, is responsible for the administration of the *Workers’ Compensation Act* (the “*WC Act*”) and the *Occupational Health and Safety Act* (the “*OHS Act*”); and, in accordance with the provisions of these acts, for promoting accident prevention; administering the payment of benefits to injured workers and surviving spouses; and levying and collecting assessments from employers sufficient to fund the current and future costs of existing claims.

WorkSafeNB is also responsible for the administration of the *Firefighters’ Compensation Act* (the “*FC Act*”) and, in accordance with the provisions of the act, for administering the payment of benefits to firefighters or former firefighters and dependants; and levying and collecting assessments from municipalities, rural communities, and local service districts. The results of operations under the *FC Act* are not included in WorkSafeNB’s financial statements. A separate set of financial statements is prepared for the *FC Act*.

WorkSafeNB’s financial statements were authorized for issue in accordance with a resolution of the board of directors on March 14, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

The accounting policies set out below have been applied in preparing the financial statements for the year ended December 31, 2012 and the comparative information for the year ended December 31, 2011.

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

a) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) in effect at December 31, 2012 and are presented in thousands (000s) of Canadian dollars, unless otherwise stated.

WorkSafeNB’s financial statements have been prepared on a historical cost basis except for investments, which are measured at fair value and benefits liabilities, which are discounted to present value based on the assumptions detailed in Note 3. The principal accounting policies applied in the preparation of the financial statements are set out below.

b) New accounting standards

Future accounting and reporting changes

The International Accounting Standards Board (the “IASB”) is continually working towards the improvement and development of new accounting standards. The IASB has issued a number of exposure drafts of new standards that are expected to come into effect over the next several years. WorkSafeNB continually monitors the IASB work plans and publications to assess any potential impact on the organization.

IFRS 13 (Fair Value Measurement), effective January 1, 2013, establishes a single framework for all fair value measurements and describes how fair value is measured under IFRS. It is not anticipated that the standard will have a material impact on WorkSafeNB’s financial statements.

The IASB is also working on revisions to IFRS 4 (Insurance Contracts), IFRS 9 (Financial Instruments), IAS 17 (Leases), and IAS 18 (Revenue). At the current time, the impact of proposed revisions is not determinable.

c) Use of accounting estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying WorkSafeNB’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial report, have been disclosed in Notes 2 and 3. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could be higher or lower than these estimates.

FINANCIAL STATEMENTS

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

d) Cash and short-term investments

Cash and short-term investments are recorded at fair value and consist of cash and money market instruments with maturities of less than one year.

e) Assessment income

Assessment income is calculated on actual or estimated payrolls as reported by the employer, or on arbitrary assessments as determined by WorkSafeNB. Separate assessment rates are established for each industry classification. An allowance for doubtful accounts is provided for assessments receivable based on management's best estimate.

A portion of assessment income for the year is not billed or received until after year-end. Part of the amount receivable is an estimate based on an analysis of payroll data of assessed employers. The remainder is determined based on amounts billed and received subsequent to year-end. Any difference between unbilled assessments and the actual assessments received is credited or charged to income in the following year.

f) Investments

All portfolio investments, except forward foreign exchange contracts, are designated by WorkSafeNB as financial assets at fair value through profit or loss on initial recognition, and are recorded at fair value. Forward foreign exchange contracts are classified as held-for-trading and are recorded at fair value. Interest and dividend income and realized gains and losses on all portfolio investments are included in investment income. Interest and dividend income is recognized in the period earned and realized gains and losses are recognized in the period in which they arise. Unrealized gains and losses are included in investment income and recognized in the period in which they arise. All purchases and sales of securities classified as portfolio investments are recognized using trade-date accounting.

All portfolio investments, except forward foreign exchange contracts, are designated by WorkSafeNB as financial assets at fair value through profit or loss on initial recognition because the portfolio is managed and its performance is evaluated on a fair value basis, in accordance with the policies and directives that document WorkSafeNB's investment strategy and risk controls. The portfolio investments are held to provide for the benefits liabilities. The most relevant measure to assess whether the investments are sufficient to pay for the liabilities is fair value. As the portfolio investments are a key part of the ongoing insurance operations of WorkSafeNB, the interest and dividend income and the realized and unrealized gains and losses on the portfolio investments are recognized in income from operations.

Fair values of investments are determined as follows:

- Equities are valued at their year-end quoted market prices as reported on recognized public securities exchanges.
- Fixed-term investments are valued at their year-end closing market prices or the average of the latest bid/ask prices based on available public quotations from recognized dealers in such securities.
- Commercial paper, short-term notes and treasury bills and term deposits maturing within a year are valued at either their year-end closing or bid price based on available quotations from recognized dealers in such securities, or at cost plus accrued interest, which approximates fair value.
- Pooled fund units are valued at their year-end net asset value, as determined by the fund manager or administrator. For equity and fixed-income pooled funds, these values represent WorkSafeNB's proportionate share of underlying net assets at fair values determined using either quoted market prices or year-end closing market prices or the average of the latest bid/ask prices based on available public quotations from recognized dealers in such securities. For real estate pooled funds, these values represent WorkSafeNB's proportionate share of the underlying net assets at fair values determined using independent appraisals, net of any liabilities against the fund assets.
- Forward foreign exchange contracts are valued at their net unrealized gain or loss, based on quoted market exchange rates at the balance sheet date.

g) Fair value of other financial assets and liabilities

The carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments.

h) Foreign currencies

Assets denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date. Income from these assets is translated at the rate in effect at the time the income is received.

FINANCIAL STATEMENTS

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

Realized exchange gains or losses are included in investment income and recognized in the period earned. Unrealized exchange gains or losses resulting from the translation of foreign currency denominated asset balances are recorded in investment income in the period in which they arise.

i) Benefits liabilities

Benefits liabilities represent the actuarial present value of all future benefits payments expected to be made for claims that occurred in the current fiscal year or in any prior year. The benefits liabilities include provision for all benefits provided by current legislation, policies and administrative practices in respect of existing claims. Benefits liabilities also include the estimated liability for latent occupational disease and a provision for future administration costs of existing claims. Due to the nature of the estimated liability for latent occupational disease and the extent of related historical claims information available, this liability is more uncertain by its nature than other benefits liabilities. As information is accumulated and analyzed, adjustments may be necessary to improve precision. The benefit liability calculations are completed by WorkSafeNB's internal actuarial staff in accordance with accepted actuarial practice established by the Canadian Institute of Actuaries. It is WorkSafeNB's practice to have an independent consulting actuary complete a valuation of the benefits liabilities of WorkSafeNB every year. Actual future costs could be higher or lower than those amounts presented in the financial statements.

A variety of estimation techniques are used in performing the valuation. They are generally based upon statistical analyses of historical experience, which assume that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of claims to increase or reduce when compared with the cost of previously settled claims including, but not limited to:

- Changes in WorkSafeNB processes that might accelerate or slow down the development and/or recording of claims;
- Changes in WorkSafeNB policies that might affect benefits;
- Changes in the legal environment;
- Medical and technological developments.

Multiple techniques are adopted to estimate the required level of provisions. This assists in better aligning the trends inherent in the data being projected to the benefit type being valued. The most appropriate estimation technique is selected taking into account the characteristics of the benefit type and the extent of the development of each accident year.

Details of specific assumptions used in deriving the outstanding claims liability at year-end are detailed in Note 3.

j) Recoverable benefits liabilities and self-insured employers

These financial statements include the effects of transactions carried out for self-insured employers (predominately Federal and certain Provincial Government institutions) who bear the direct cost of their incurred claims and an appropriate share of administration costs.

The benefits liabilities recorded in these financial statements include obligations to injured workers of self-insured employers, excluding those injured workers and dependants receiving benefits under the federal *Government Employees Compensation Act* or the *Silicosis Compensation Act*. These obligations represent the actuarial present value of all expected future benefits payments on behalf of self-insured employers, for claims that occurred in the current fiscal year, or in any prior year. As these liabilities will be borne by the self-insured employers when paid, an offsetting recovery equal to the benefits liabilities is reported on the balance sheet as recoverable benefits liabilities. Self-insured employers who are Crown corporations are required to provide WorkSafeNB with an irrevocable letter of credit, or a guarantee from the Province of New Brunswick as security.

k) Operating leases

WorkSafeNB has continuing obligations under operating lease agreements for certain office space. Operating lease payments are charged as an expense in the statement of operations on a straight-line basis over the lease term.

FINANCIAL STATEMENTS

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

2. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

l) Capital assets

Capital assets are reported at cost and are depreciated on a straight-line basis over their estimated useful lives. The rates used are as follows:

Buildings	25 years
Furniture and equipment	5 years
Leasehold improvements	Remaining term of relevant lease
Computer software and hardware	3 years
Motor vehicles	3 years, 35% residual value

The assets residual values are reviewed each balance sheet date and adjusted if appropriate. Gains and losses on disposal are determined by comparing the proceeds with the carrying amount, and are included in investment income.

As at December 31, 2012, items of property, plant and equipment were assessed for specific indicators of potential impairment. Such indicators include technological obsolescence and physical deterioration or loss. Management determined that there was no material impairment of individual operating assets.

m) Post-employment benefits

Payables and accruals include an amount for post-employment benefits based on a January 1, 2013 actuarial valuation conducted by WorkSafeNB's independent consulting actuary. Post-employment benefits include retirement allowances and early retirement programs.

n) Workers' Rehabilitation Centre

Included in health care payments is \$5.4 million (2011 – \$5.5 million) for services provided by the Workers' Rehabilitation Centre, a department of WorkSafeNB.

o) Impairment review

Entity Level

IAS 36 (Impairment of Assets) requires an entity to test assets for impairment if indicators of impairment exist. The impairment review must be conducted for an individual asset, an asset group, or the cash-generating unit level, which is the smallest identifiable group of assets that generates cash inflows independent of cash inflows from other assets or groups of assets.

Based on an analysis of cash flows, WorkSafeNB has established that the appropriate cash-generating unit for impairment review is the entity. As WorkSafeNB has statutory power under the *WC Act* to increase assessments and/or impose levies to ensure full funding into the foreseeable future, impairment at the entity level is remote. WorkSafeNB conducts an annual review to ensure that no events or change in circumstances have occurred that would provide evidence of impairment.

As at December 31, 2012, management concluded that there were no known significant changes in the legislative, economic, or business environment that would have a material impact on WorkSafeNB's ability to generate future economic benefits from its operating assets.

p) Funding policy

WorkSafeNB's funding policy specifies a funding goal (ratio of assets to liabilities) of 110%. This permitted excess of assets over liabilities reduces the impact of year-to-year fluctuations, therefore providing assessment rate stabilization and enhanced security that awarded benefits will be met. The assessment revenue raised in any year from assessed employers may include or be reduced by an amount designed to allow WorkSafeNB to attain its funding goal. The funded ratio at December 31, 2012 is 126.7% (2011 – 116.9%). Under the *WC Act*, a minimum funding level of 100% is required, with any shortfall to be recovered over a period of five years.

FINANCIAL STATEMENTS

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

3. ACTUARIAL ASSUMPTIONS AND METHODS

Significant estimates and judgments are made in respect of outstanding benefits liabilities disclosed in the financial statements and the discount rates used to calculate the present value of future benefit payments. These estimates and judgments are continually being evaluated and are based on historical experience, as well as enhancements to actuarial modeling techniques. The following explicit assumptions have been made in determining the outstanding benefits liabilities:

	2012			2011		
	CPI-indexed awards	Medical payments (duration 16 and over)	Other payments (duration 16 and over)	CPI-indexed awards	Medical payments (duration 16 and over)	Other payments (duration 16 and over)
Gross rate of return	6.60%	6.60%	6.60%	7.12%	7.12%	7.12%
Inflation - Year 1	2.40%	7.00%	3.50%	2.52%	7.50%	4.00%
- subsequent years	2.50%	7.00%	3.50%	3.00%	7.50%	4.00%
Net rate of return - Year 1	4.10%	(0.37%)	3.00%	4.49%	(0.35%)	3.00%
- subsequent years	4.00%	(0.37%)	3.00%	4.00%	(0.35%)	3.00%
Future administration	6.50%	6.50%	6.50%	6.50%	6.50%	6.50%
Occupational disease	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

A description of the processes used to determine these assumptions is provided below:

General statement

Assumptions are formulated to be consistent with the funding and investment policies adopted by the board. Benefits liabilities are valued based on the primary assumption that the system will be in operation for the very long term. Hence, the focus is on long-term trends as opposed to short-term fluctuations around those trends.

Gross rate of return

The gross rate of return reflects the best estimate of the long-term average rate of return that can be expected using the benchmark asset allocation adopted by the board in its statement of investment goals and objectives. The process is based on the estimate of a real rate of return that is then compounded with the long-term average future inflation estimate to obtain the gross rate of return.

CPI-indexed awards inflation rate

The indexation rate in year one for short-term disability, long-term disability, pensions and survivor awards is known when the valuation is made. This calculation of the indexation rate is specified under the *WC Act* and the calculation for the following calendar year is made before year-end. For the first 15 years of the projection for short-term disability and seven years of the projection for long-term disability awards, the inflation rate is assumed to be the same as is implied in the development factors derived from past payment history. For subsequent durations, the inflation rate was determined from a study of past experience over periods of 20, 30 and 50 years. The study is periodically updated to ensure the inflation assumption remains current. The latest study, conducted in 2012, revealed an annual inflation rate of 2.5%.

Medical payments inflation rate

For the first 15 years of the projection, the inflation rate is assumed to be the same as is implied in the development factors derived from past payment history. For duration 16 and over, the inflation rate was determined from a study of past payment experience for the period from 1992 to 2006. The study is periodically updated to ensure the inflation assumption remains current. The latest study, conducted in 2008, revealed an annual inflation rate that was 4.5% above the long-term inflation assumption used for CPI.

Other payments inflation rate

For the first 15 years of the projection, the inflation rate is assumed to be the same as is implied in the development factors derived from past payment history. For duration 16 and over, the inflation rate was determined from a study of past payment experience for the period from 1992 to 2006. The study is periodically updated to ensure the inflation assumption remains current. The latest study, conducted in 2008, revealed an annual inflation rate that was 1.0% above the long-term inflation assumption used for CPI.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

CPI-indexed awards net rate of return

A net rate of return is not calculated for the first 15 years following injury for short-term disability and the first seven years following injury for long-term disability awards as there is no explicit inflation assumption. The net rate of return for other CPI-indexed benefit types and other durations is the net result from removing the inflation component of the gross rate of return from the gross rate of return on a compounded basis.

Medical payments net rate of return

A net rate of return is not calculated for the first 15 years following injury as there is no explicit inflation assumption. The net rate of return is the net result from removing the inflation component of the gross rate of return from the gross rate of return on a compounded basis.

Other payments net rate of return

A net rate of return is not calculated for the first 15 years following injury as there is no explicit inflation assumption. The net rate of return is the net result from removing the inflation component of the gross rate of return from the gross rate of return on a compounded basis.

Future administration

When a claim occurs, it triggers an obligation to provide claims management, maintenance and support in terms of paying the various providers of health care services and compensating workers for lost wages for as long as the claim is open. The future administration expense liability is intended to provide a reasonable allowance for this obligation.

A detailed review of future administration expenses is conducted periodically. In this review, an estimate is made of the portion of operating expenses that can be attributed to claims maintenance, including a proportionate share of overhead expenses. The latest review, conducted in 2008, concluded that a 6.5% allocation was reasonable. Hence, a liability for future administration expenses of 6.5% of the total benefits liability is included in the liability estimate.

Occupational disease

Occupational diseases differ from occupational injuries in that there can be a considerable time lag between the exposure, the manifestation of the disease and the identification of the ensuing disability as a workers' compensation claim. Furthermore, while the circumstances of an injury usually make it clear whether it is work related or not, the link between an occupational disease and the workplace may be very difficult to establish.

A detailed review of long-latency occupational disease incidence and costs is conducted periodically. The review provides a range of potential incidence and cost based on past experience. The study includes allowance for changes in industry make-up since the experience has developed and improvements have been made in the prevention of diseases known to be work related. The latest review, conducted in 2005, concluded that a 4.5% allocation was reasonable. Hence, a liability for occupational disease of 4.5% of the total benefits liability is included in the liability estimate.

Sensitivity analysis

i) Summary

Sensitivity analyses are conducted to quantify the exposure to risk of changes in the key underlying variables. The valuations included in the reported results are calculated using certain assumptions about these variables as disclosed above. The movement in any key variable will impact the financial performance and funding ratio of WorkSafeNB.

Impact of movement in variable:

Gross rate of return

The outstanding claims liability is calculated by reference to expected future payments. These payments are discounted to adjust for the time value of money. An increase or decrease in the assumed discount rate will have an opposing impact on claims costs.

Long-term general inflation rate

The CPI-indexed awards inflation rate, medical payments inflation rate, and other payments inflation rate are all directly affected by movements in the long-term general inflation rate. Consequently, the benefits indexed to these rates are also impacted. An increase or decrease in the long-term general inflation rate would have a corresponding impact on claims costs.

FINANCIAL STATEMENTS

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NOTES TO FINANCIAL STATEMENTS

December 31, 2012

3. ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

Medical inflation rate

Medical expenses more than 15 years after the injury account for a major part of expected benefit payments at long durations. An increase or decrease in medical payment inflation relative to the assumption underlying the liability estimates would have a corresponding impact on claims costs.

The table below presents the sensitivity of the benefits liabilities to an immediate 1% increase or decrease in the assumed rates.

ii) Impact of changes in key variables:

	2012 (000s)		2011 (000s)	
	+1.00%	-1.00%	+1.00%	-1.00%
+/-% change in assumed rates				
Gross rate of return	\$ (60,932)	\$ 69,990	\$ (61,038)	\$ 69,901
Long-term general inflation rate	57,410	(50,449)	58,685	(51,675)
Medical inflation rate	22,435	(19,092)	23,094	(19,354)

4. CLAIMS – RISK MANAGEMENT POLICIES AND PROCEDURES

The financial condition and operation of WorkSafeNB is affected by a number of key risks including claims, operational and financial risks. WorkSafeNB has established policies and procedures in respect of managing these risks as set out below.

a) Claims risk

WorkSafeNB has an objective to manage claims risk thus reducing the volatility of assessment premiums and performance from operations. In addition to the inherent uncertainty of claims risk, which can lead to significant variability in the loss experience, performance from operations are significantly affected by market factors external to WorkSafeNB.

WorkSafeNB has developed, implemented and maintained a sound and prudent claims risk management strategy that encompasses all aspects of WorkSafeNB's operations.

The strategy sets out WorkSafeNB's policies and procedures, processes and controls in relation to the management of likely financial and non-financial claims risks.

Key aspects of the processes in place to mitigate claims risks include:

- Established processes for managing claims in accordance with the *WHSCC Act* and the *WC Act*.
- A disciplined strategic planning and risk assessment process.
- Targeted programs for high-risk industries.
- The use of sophisticated management information systems, which provide reliable and up-to-date data on the claims risks to which the business is exposed at any point in time.
- The use of detailed internal monitoring tools which link actuarial valuation projections with the management information systems to monitor claims patterns.
- Annual review of the benefits liability by an independent external actuary.

b) Terms and conditions of the workers' compensation system

The terms and conditions of the workers' compensation system administered by WorkSafeNB are established under the *WHSCC Act*. Coverage is for annual periods ending December 31 each year. The terms and conditions of the system are similar for all assessed employers.

c) Operational risk

Operational risk relates to the risk of loss arising from systems failure, human error or from other circumstances not related to claims or financial risks. These risks are managed through a framework that includes a system of delegated authorities, effective segregation of duties, access controls and review processes.

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4. CLAIMS – RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

d) Financial risk

WorkSafeNB has exposure to the following financial risks:

- Funding risk
- Market risk
- Foreign currency risk
- Credit risk
- Inflation risk
- Interest rate risk

WorkSafeNB's exposure to these risks arises primarily in relation to its investment portfolio. Note 7 presents information about WorkSafeNB's exposure to each of the above risks, including objectives, policies and processes for measuring and managing the risk.

5. RECEIVABLES

	2012 (000s)	2011 (000s)
Assessments billed	\$ 1,568	\$ 1,888
Unbilled assessments	5,722	8,081
Self-insured employers – receivable	3,355	3,288
Self-insured employers – deposits	(1,593)	(1,682)
Other	1,769	1,559
	<u>\$ 10,821</u>	<u>\$ 13,134</u>

6. INVESTMENTS

The table below presents the fair value of WorkSafeNB's investments.

	2012 (000s)	2011 (000s)
	Fair Value	Fair Value
i) Portfolio investments		
Forward foreign exchange contracts	\$ (722)	\$ 3,360
Fixed income		
Conventional bonds	282,223	287,864
Equities		
Canadian	209,249	203,515
U.S.	187,950	181,469
Non-North American	246,220	201,926
Total equities	<u>643,419</u>	<u>586,910</u>
Inflation-sensitive		
Real return bonds	56,035	58,262
Real estate	175,530	110,262
	<u>231,565</u>	<u>168,524</u>
	<u>\$ 1,156,485</u>	<u>\$ 1,046,658</u>

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6. INVESTMENTS (CONTINUED)

ii) Fair value hierarchy

WorkSafeNB's investments have been classified into a three-level fair value hierarchy in accordance with IFRS 7 (Financial Instruments: Disclosures). The levels of the fair value hierarchy are defined as follows:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 1 inputs are the most persuasive evidence of fair value and are used whenever possible.
- Level 2 inputs are market-based inputs that are directly or indirectly observable but not considered Level 1 quoted prices. Level 2 inputs consist of: (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical assets or liabilities in non-active markets (markets which have few transactions and prices are not current or price quotations vary substantially); (iii) inputs other than quoted prices that are observable (interest rates, yield curves, volatilities, credit risks, and default rates); and (iv) inputs derived from, or corroborated by, observable market data.
- Level 3 inputs are unobservable inputs. These inputs reflect assumptions about market pricing using the best internal and external information available. The valuation approaches applied are the most suitable and appropriate for the type of investments.

In certain situations, inputs used to measure the fair value of asset positions fall into different levels of the fair value hierarchy. In these situations, the level in which the fair value falls is based upon the lowest level input that is significant to the determination of the fair value. As of December 31, 2012, the fair values of assets and liabilities measured on a recurring basis by level of input were as follows:

	2012 (000s)		Fair Value
	Level 1	Level 2	
Portfolio investments			
Forward foreign exchange contracts	\$ —	\$ (722)	\$ (722)
Fixed income			
Conventional bonds	282,223	—	282,223
Equities			
Canadian	209,249	—	209,249
U.S.	187,950	—	187,950
Non-North American	246,220	—	246,220
Total equities	643,419	—	643,419
Inflation-sensitive			
Real return bonds	56,035	—	56,035
Real estate	175,530	—	175,530
	231,565	—	231,565
	\$ 1,157,207	\$ (722)	\$ 1,156,485

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6. INVESTMENTS (CONTINUED)

	2011 (000s)		Fair Value
	Level 1	Level 2	
Portfolio investments			
Forward foreign exchange contracts	\$ —	\$ 3,360	\$ 3,360
Fixed income			
Conventional bonds	287,864	—	287,864
Equities			
Canadian	203,515	—	203,515
U.S.	181,469	—	181,469
Non-North American	201,926	—	201,926
Total equities	586,910	—	586,910
Inflation-sensitive			
Real return bonds	58,262	—	58,262
Real estate	110,262	—	110,262
	168,524	—	168,524
	\$ 1,043,298	\$ 3,360	\$ 1,046,658

iii) Investment income

	2012 (000s)	2011 (000s)
Interest and dividends	\$ 27,808	\$ 28,018
Realized investment gains (losses) on forward foreign exchange contracts	9,397	(1,806)
Realized investment gains on other portfolio investments	24,544	25,842
Change in unrealized investment gains on forward foreign exchange contracts	(4,082)	(1,641)
Change in unrealized investment gains on other portfolio investments	57,614	(22,032)
	115,281	28,381
Less: portfolio management expenses	(4,129)	(3,767)
	\$ 111,152	\$ 24,614

The market rate of return on the investment portfolio for the year ended December 31, 2012 was 10.89% (2.63% in 2011).

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6. INVESTMENTS (CONTINUED)

iv) Pooled funds

Certain of WorkSafeNB's portfolio investments are held through pooled funds with no fixed maturity date. The fair value of the investments held through pooled funds is as follows:

	2012 (000s)	2011 (000s)
Conventional bonds	\$ 282,223	\$ 287,864
Real return bonds	56,035	58,262
Non-North American equities	45,421	36,320
Real estate	175,530	110,262

v) Investment agreement

WorkSafeNB has entered into an investment agreement for the combined administration of its investments and those of the Workers Compensation Board of Prince Edward Island and the *FC Act* Disability Fund. These financial statements report WorkSafeNB's proportional share of the investments held in the fund, which was 86.05% at December 31, 2012 (2011 – 86.63%). In 2012, WorkSafeNB received a fee of \$171,634 (2011 – \$161,628) for the administration of the Workers Compensation Board of Prince Edward Island's share of the fund, and a fee of \$5,440 (2011 – \$0) for the administration of the *FC Act* Disability Fund's share of the fund.

7. FINANCIAL RISK MANAGEMENT

WorkSafeNB has established policies for the management of its investments. All of WorkSafeNB's investments are managed by independent, external investment managers. The compliance of these managers with the investment policies is monitored on a regular basis.

WorkSafeNB manages investment risk by diversifying its portfolio among asset classes, industry sectors, geographic locations and individual securities. Further diversification is achieved by selecting investment managers with varying investment philosophies and styles. From time to time, WorkSafeNB retains independent consultants to advise on the appropriateness and effectiveness of its investment policies and practices. This includes periodic asset liability studies to ensure that the investment strategy is suitable in light of the related liabilities and WorkSafeNB's risk tolerance. The last such study was completed in 2011.

The following sections describe WorkSafeNB's financial risk exposures and related mitigation strategies.

i) Funding risk

WorkSafeNB's funding policy specifies a funding goal (ratio of assets to liabilities) of 110%. This permitted excess of assets over liabilities reduces the impact of year-to-year fluctuations, therefore providing assessment rate stabilization and enhanced security that awarded benefits will be met.

ii) Market risk

WorkSafeNB invests in publicly traded equities listed on domestic and foreign exchanges, bonds traded over-the-counter through broker-dealers, and Canadian commercial real estate held via pooled funds. These securities are affected by fluctuations in market prices. Such fluctuations are subject to economic factors and other fluctuations in domestic and global capital markets, as well as risks specific to issuers, which may affect the market value of individual securities. Policy guidelines have been established to ensure that WorkSafeNB's investments are diversified by issuer, industry and geographic location.

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7. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below presents the estimated effect of a reasonably possible¹ adverse change in the key risk variable – the market benchmark – for each of the equity mandates in WorkSafeNB's investment portfolio.

	2012 (000s)		2011 (000s)	
	1 std dev	2 std dev	1 std dev	2 std dev
Canadian Equities				
% change in market benchmark ²	(14.0%)	(28.0%)	(14.4%)	(28.9%)
Canadian portfolio – impact on surplus/deficit	\$ (25,179)	\$ (50,079)	\$ (25,212)	\$ (50,181)
U.S. Equities				
% change in market benchmark ³	(11.3%)	(22.7%)	(12.6%)	(25.3%)
U.S. portfolio – impact on surplus/deficit	\$ (23,302)	\$ (46,645)	\$ (23,043)	\$ (46,000)
International (EAFE) Equities				
% change in market benchmark ⁴	(13.5%)	(27.1%)	(14.0%)	(27.9%)
International portfolio – impact on surplus/deficit	\$ (24,253)	\$ (48,297)	\$ (19,420)	\$ (38,594)
Emerging Markets Equities				
% change in market benchmark ⁵	(18.4%)	(36.8%)	(18.7%)	(37.5%)
Emerging markets portfolio – impact on surplus/deficit	\$ (6,379)	\$ (12,654)	\$ (5,502)	\$ (10,945)

1. Reasonably possible changes are estimated using the historical (10-year) variability of each of the market benchmarks about their respective means. The standard deviation measures the normal variance in a probability distribution. One standard deviation covers 68% of all probable outcomes and two standard deviations covers 95%.

2. S&P TSX (Standard & Poor's Toronto Stock Exchange) Capped Composite Index

3. S&P (Standard & Poor's) 500 Index

4. MSCI (Morgan Stanley Capital International) EAFE (Europe, Australasia and Far East) Total Return Index

5. MSCI EM (Emerging Markets) Total Return Index

iii) Foreign currency risk

WorkSafeNB has certain investments denominated in foreign currencies. Currency risk is the risk that the value of these investments will fluctuate due to changes in foreign exchange rates. WorkSafeNB's most significant currency exposure is to the U.S. dollar, the euro, the Japanese yen and the British pound. At December 31, 2012, WorkSafeNB had U.S. dollar-denominated holdings of \$188.0 million (2011 – \$181.5 million), euro-denominated holdings of \$48.3 million (2011 – \$43.1 million), Japanese yen-denominated holdings of \$40.2 million (2011 – \$33.5 million) and British pound-denominated holdings of \$43.8 million (2011 – \$38.8 million).

For its U.S. and non-North American equities, WorkSafeNB has adopted a policy to hedge 50% of its developed market foreign currency exposure using forward foreign exchange contracts. Forward foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract's inception.

The fair value of these financial instruments will change in response to changes in the foreign exchange rates of the currencies involved in the contracts. The notional amounts in forward foreign exchange contracts are the contractual amounts on which payments are made. These notional amounts have been converted into Canadian dollars at the contractual exchange rates in effect at the inception of the contracts. Outstanding contracts from 2012 mature in the first 30 days of 2013.

At December 31, 2012, the notional value of outstanding forward foreign exchange contracts was \$181.5 million (2011 – \$168.7 million). The fair value of these contracts was a liability of \$0.7 million (2011 – \$3.4 million asset). Unrealized losses on forward foreign exchange contracts of \$0.7 million (2011 – \$3.4 million unrealized gain) were included in investment income.

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7. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below presents how the surplus/deficit would be affected by a reasonably possible annual change in the Canadian/US dollar, Canadian/euro, Canadian/Japanese yen and Canadian/British pound exchange rates. The impact on the surplus/deficit is shown net of the currency hedges in place at year-end:

	2012 (000s)	2011 (000s)
	Impact on surplus/deficit	Impact on surplus/deficit
15% appreciation in the Canadian dollar		
CAD/USD	\$ (12,198)	\$ (12,054)
CAD/EURO	(3,152)	(2,812)
CAD/YEN	(2,625)	(2,187)
CAD/POUND	(2,893)	(2,532)

iv) Credit risk

Credit risk on fixed-term or money market investments or forward foreign exchange contracts arises from the possibility that the counter party to an instrument fails to meet its obligation to WorkSafeNB. The maximum exposure to credit risk is determined by the fair value of these financial instruments. Policy guidelines have been established to ensure WorkSafeNB holds fixed-term investments with a credit rating of BBB or higher. WorkSafeNB may only invest in money market instruments that are provincially or federally guaranteed or are guaranteed by one of the five largest Canadian chartered banks. Counter parties to forward foreign exchange contracts must have a credit rating of at least AA-.

The table below summarizes the fixed term investments by credit rating.

Credit Rating*	2012		2011	
	Fair Value (000s)	% of Total Fixed-Term Investments	Fair Value (000s)	% of Total Fixed-Term Investments
AAA	\$ 174,226	51.51	\$ 181,133	52.33
AA	69,978	20.69	75,821	21.90
A	94,054	27.80	88,733	25.64
BBB	-	-	439	0.13
Total	\$ 338,258	100.00	\$ 346,126	100.00

* Credit ratings are obtained from Standard & Poor's, Moody's or DBRS ratings

v) Inflation risk

Inflation risk is the risk that a general increase in price level may result in loss of future purchasing power for current monetary assets.

To mitigate the effect of inflation on WorkSafeNB's future liabilities, the portfolio holds inflation-sensitive investments, such as real-return bonds and real estate. Canadian real-return bonds are indexed to the annual change in the Canadian consumer price index. The table included in the interest rate section below presents the remaining terms to maturity of the conventional and real-return bond portfolios.

vi) Interest rate risk

Future changes in the prevailing level of interest rates will affect the fair value of the fixed-term investments.

The following table presents the remaining term to maturity of WorkSafeNB's portion of the outstanding fixed-term investments, some of which are held in pooled funds.

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7. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Remaining Term To Maturity (000s)				Total 2012	Total 2011
	Within 1 Year	Over 1 Year to 5 Years	Over 5 Years			
Canadian real return bonds (fair value)	\$ (1,612)	\$ –	\$ 57,647	\$ 56,035	\$ 58,262	
Canadian conventional bonds (fair value)	(1,022)	83,067	200,178	282,223	287,864	
	\$ (2,634)	\$ 83,067	\$ 257,825	\$ 338,258	\$ 346,126	

The average effective real yield of the real return bonds is 0.18% (2011 – 0.26%) per annum based on market value. The average effective yield of the conventional bonds is 2.41% (2011 – 2.55%) per annum based on market value.

As of December 31, 2012, had the prevailing interest rate changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the value of the Canadian conventional bonds would have increased or decreased by \$22.7 million (2011 – \$24.6 million), approximately 8.04% (2011 – 8.54%) of their fair value.

As of December 31, 2012, had the prevailing real interest rate changed by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the value of the Canadian real return bonds would have increased or decreased by \$9.3 million (2011 – \$10.0 million), approximately 16.51% (2011 – 17.13%) of their fair value.

The sensitivity to interest rate changes was estimated using the weighted average duration of the bond portfolios.

8. CAPITAL ASSETS

	Land and buildings (000s)	Computer software and hardware (000s)	Furniture and equipment including leasehold improvements (000s)	Motor vehicles (000s)	2012 Total (000s)	2011 Total (000s)
Cost						
Balance as at January 1	\$ 7,120	\$ 14,709	\$ 5,005	\$ 339	\$ 27,173	\$ 27,016
Additions	154	1,341	178	26	1,699	1,826
Disposals	–	(1,421)	–	–	(1,421)	(1,669)
Balance at December 31	\$ 7,274	\$ 14,629	\$ 5,183	\$ 365	\$ 27,451	\$ 27,173
Accumulated Depreciation						
Balance at January 1	\$ (545)	\$ (12,873)	\$ (3,957)	\$ (157)	\$ (17,532)	\$ (17,383)
Depreciation	(285)	(1,241)	(291)	(38)	(1,855)	(1,781)
Disposals	–	1,421	–	–	1,421	1,632
Balance at December 31	\$ (830)	\$ (12,693)	\$ (4,248)	\$ (195)	\$ (17,966)	\$ (17,532)
Carrying amounts						
At January 1	\$ 6,575	\$ 1,836	\$ 1,048	\$ 182	\$ 9,641	\$ 9,633
At December 31	\$ 6,444	\$ 1,936	\$ 935	\$ 170	\$ 9,485	\$ 9,641

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9. PAYABLES AND ACCRUALS

	2012 (000s)	2011 (000s)
Accounts payable and accruals	\$ 12,863	\$ 13,601
Post-employment benefits	6,593	5,974
	<u>\$ 19,456</u>	<u>\$ 19,575</u>

10. BENEFITS LIABILITIES

i) Continuity schedule	2012 (000s)					2011 (000s)
	Short-term disability and rehabilitation	Long-term benefits	Survivor benefits	Health care	Total	Total
Balance, beginning of year	\$ 86,391	\$ 551,668	\$ 93,567	\$ 298,837	\$ 1,030,463	\$ 1,047,824
Add claims costs incurred:						
Current year injuries	34,099	23,180	1,776	46,669	105,724	107,748
Prior years' injuries	(5,053)	6,162	5,894	19,861	26,864	11,515
	<u>29,046</u>	<u>29,342</u>	<u>7,670</u>	<u>66,530</u>	<u>132,588</u>	<u>119,263</u>
Less claims payments made:						
Current year injuries	13,592	294	94	13,351	27,331	25,651
Prior years' injuries	22,105	46,776	8,528	34,691	112,100	110,973
	<u>35,697</u>	<u>47,070</u>	<u>8,622</u>	<u>48,042</u>	<u>139,431</u>	<u>136,624</u>
Balance, end of year	<u>\$ 79,740</u>	<u>\$ 533,940</u>	<u>\$ 92,615</u>	<u>\$ 317,325</u>	<u>\$ 1,023,620</u>	<u>\$ 1,030,463</u>

ii) Current year injuries

	2012 (000s)			2011 (000s)		
	Claims payments	Present value of expected future costs	Claims costs incurred	Claims payments	Present value of expected future costs	Claims costs incurred
Short-term disability and rehabilitation	\$ 13,592	\$ 20,507	\$ 34,099	\$ 13,407	\$ 22,190	\$ 35,597
Long-term disability	294	22,886	23,180	73	26,801	26,874
Survivor benefits	94	1,682	1,776	24	715	739
Health care	13,351	33,318	46,669	12,147	32,391	44,538
	<u>\$ 27,331</u>	<u>\$ 78,393</u>	<u>\$ 105,724</u>	<u>\$ 25,651</u>	<u>\$ 82,097</u>	<u>\$ 107,748</u>

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10. BENEFITS LIABILITIES (CONTINUED)

iii) Reconciliation of movement in benefits liabilities	2012 (000s)	2011 (000s)
Balance, beginning of year	\$ 1,030,463	\$ 1,047,824
Add (deduct) changes in liabilities		
Provision for future costs of new injuries	78,393	84,374
Interest on liability	71,164	67,822
Payments and other transactions	(112,132)	(113,181)
	<u>37,425</u>	<u>39,015</u>
Claims experience (gains) losses		
Actual costs more (less) than expected	(25,175)	(36,533)
Actual payments more (less) than expected	(11,057)	(17,340)
Difference between actual and expected inflation	(1,458)	(1,103)
Other experience (gains) losses	225	(372)
	<u>(37,465)</u>	<u>(55,348)</u>
Unusual items		
Change in long-term inflation assumption	5,241	–
Changes in other assumptions	–	(1,028)
Changes in valuation methodology	(14,504)	–
Change resulting from CPPR decision	2,460	–
	<u>(6,803)</u>	<u>(1,028)</u>
Balance, end of year	<u>\$ 1,023,620</u>	<u>\$ 1,030,463</u>

iv) Prior years' injuries

Significant changes in prior years' claims costs arising from the estimate of the benefits liabilities included the following:

	Increase (decrease) in benefits liabilities and claims costs incurred	
	2012 (000s)	2011 (000s)
Reduction in assumed indexing rate for CPI-indexed benefits	\$ (1,458)	\$ (1,103)
(Favourable) Unfavourable experience on health care costs	(1,120)	(7,460)
(Favourable) Unfavourable experience on survivor costs	(896)	1,243
(Favourable) Unfavourable experience on short-term disability costs	(9,305)	(9,752)
(Favourable) Unfavourable experience on long-term disability costs	(22,248)	(33,790)
(Favourable) Unfavourable experience on other costs	(2,439)	(4,487)
Changes due to unusual items	(6,803)	(1,028)

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10. BENEFITS LIABILITIES (CONTINUED)

v) Claims development table

The table that follows presents the development of outstanding claims relative to the ultimate expected claims for the six most recent accident years. The table illustrates how the estimate of ultimate claims costs for each accident year has changed with more experience over succeeding year-ends, and compares the current estimate of cumulative claims cost to the actual cumulative payments over the development period. Due to the long duration of many benefit types, significant amounts will be paid beyond the valuation date. The lower section of the table reconciles the total outstanding claims amounts to the discounted amount reported in the balance sheet.

Accident year	2007 (000s)	2008 (000s)	2009 (000s)	2010 (000s)	2011 (000s)	2012 (000s)	Total (000s)
Estimate of ultimate claims cost:							
At end of accident year	\$ 203,829	\$ 207,975	\$ 200,462	\$ 203,428	\$ 184,192	\$ 168,843	
One year later	187,921	195,033	188,926	176,741	159,701		
Two years later	170,276	183,685	172,132	154,210			
Three years later	166,587	173,110	158,550				
Four years later	158,105	159,873					
Five years later	148,603						
Current estimate of cumulative claims costs	148,603	159,873	158,550	154,210	159,701	168,843	949,780
Cumulative payments	(71,075)	(71,767)	(64,927)	(57,670)	(48,747)	(27,812)	(341,998)
Outstanding claims, undiscounted	77,528	88,106	93,623	96,540	110,954	141,031	607,782
2006 and prior years							959,414
Total outstanding claims, undiscounted							1,567,196
Discount							(697,186)
Annuity - accrual							66,293
Occupational diseases							40,979
Other contingent liabilities*							46,338
Total outstanding claims						\$	1,023,620

* Consists primarily of liabilities for future annuity awards.

11. ASSESSMENTS

	2012 (000s)		2011 (000s)
	Budget	Actual	Actual
Assessment income	\$ 143,527	\$ 139,389	\$ 162,167
Interest and penalties	800	586	718
Uncollectibles	(500)	(672)	(457)
	\$ 143,827	\$ 139,303	\$ 162,428

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12. SELF-INSURED EMPLOYERS

	2012 (000s)		2011 (000s)
	Budget	Actual	Actual
Assessments	\$ 30,521	\$ 25,292	\$ 27,486
Claims costs incurred:			
Short-term disability and rehabilitation	7,282	9,108	9,213
Long-term disability	6,771	(1,098)	3,028
Survivor benefits	800	723	556
Health care	10,668	11,549	9,418
	25,521	20,282	22,215
Administration	5,000	5,010	5,271
	\$ 30,521	\$ 25,292	\$ 27,486

13. ADMINISTRATION

	2012 (000s)		2011 (000s)
	Budget	Actual	Actual
Salaries and employee benefits	\$ 30,052	\$ 30,279	\$ 28,929
Depreciation	2,100	1,809	1,722
Professional fees	1,782	1,220	1,320
Office and communications	2,379	2,117	1,896
Building operations	3,036	2,527	2,526
Travel and vehicle operations	1,460	1,033	1,041
Education and training	787	675	523
Other	1,273	1,006	942
	42,869	40,666	38,899
Allocated to health care claims costs	(1,500)	(1,451)	(1,394)
	\$ 41,369	\$ 39,215	\$ 37,505

A portion of WorkSafeNB's administration costs represents charges incurred by WorkSafeNB for the Workers' Rehabilitation Centre. This portion, which relates to claims, has been allocated to health care.

14. LEGISLATIVE OBLIGATIONS

WorkSafeNB is required by legislation to reimburse the provincial government for operating costs of the workers' and employers' advocates. In 2012, WorkSafeNB incurred \$916,753 for these costs (2011 – \$876,172).

In 2012, WorkSafeNB provided \$250,000 (2011– \$250,000) of financial assistance to the New Brunswick Construction Safety Association and \$190,000 (2011 – \$190,000) of financial assistance to the New Brunswick Forest Industries Safety Association in accordance with the *WC Act*. The money paid was levied against all employers in the industries represented by the safety associations and is included as part of assessment income.

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15. COMMITMENTS

Future minimum payments under operating lease arrangements:	2012 (000s)	2011 (000s)
Due within one year	\$ 370	\$ 369
Due later than one year and less than five years	897	1,146
Due later than five years	111	243
	<u>\$ 1,378</u>	<u>\$ 1,758</u>

16. RELATED PARTY TRANSACTIONS

Government entities

These financial statements include the results of normal operating transactions with various provincial government controlled departments, agencies and Crown corporations, with which WorkSafeNB may be considered related. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

The Province of New Brunswick previously provided a grant to WorkSafeNB in support of occupational health and safety. The funding of the grant ceased in the second quarter of 2011.

Key management compensation

Key management personnel of WorkSafeNB are deemed related parties. They include members of the board of directors and the executive committee. Total compensation for key management is detailed in the following table:

	2012 (000s)	2011 (000s)
Salaries and other short-term employee benefits	\$ 1,261	\$ 1,285
Post-employment benefits	124	150
	<u>\$ 1,385</u>	<u>\$ 1,435</u>

17. EMPLOYEE PENSION PLAN

WorkSafeNB and its employees participate in a multi-employer contributory defined benefit pension plan, administered by the Province of New Brunswick under the *Public Service Superannuation Act*. The plan provides pensions to employees of the provincial government and certain Crown corporations and agencies based on the length of service and highest successive five-year average salary.

Since sufficient information is not readily available to account for WorkSafeNB's participation in the plan using defined benefit pension plan accounting, these financial statements have been prepared using accounting rules for defined contribution pension plans.

The plan was 83.6% funded as of April 1, 2012, the date of the most recent external valuation of the plan. The Province has advised WorkSafeNB that the unfunded liability is being funded through annual escalating payments. The 2012 payment was \$312,475 (2011 – \$299,019) and future payments, if required, will increase by the annual growth in CPI plus 2%. Future actuarial valuations may change the funding requirement.

The current year expense for this pension plan (excluding the escalating payment) is \$2.15 million (2011 – \$2.02 million).

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NOTES TO FINANCIAL STATEMENTS
December 31, 2012

18. BUDGET

The 2012 budget figures that are presented for comparison with the actual figures were approved by WorkSafeNB's board of directors and have not been audited.

19. EVENTS AFTER THE REPORTING DATE

There have been no events after the reporting date that would have a material effect on WorkSafeNB's financial statements at December 31, 2012.

20. COMPARATIVE FIGURES

Certain of the 2011 figures that are presented for comparative purposes have been reclassified to conform to presentation standards adopted in 2012.

FIVE YEAR HISTORICAL FINANCIAL STATEMENTS (UNAUDITED)

WORKSAFENB

BALANCE SHEET

As at December 31

	2012 (000s)	2011 (000s)	2010 (000s)	2009 (000s)	2008 (000s)
ASSETS					
Cash and short-term investments	\$ 16,611	\$ 21,774	\$ 28,374	\$ 51,092	\$ 34,428
Receivables and other	10,821	13,134	13,918	13,724	12,225
Recoverable benefits liabilities	128,377	136,495	140,989	140,236	151,354
Investments	1,156,485	1,046,658	995,271	853,447	724,287
Capital assets	9,485	9,641	9,633	7,467	8,063
	<u>\$ 1,321,779</u>	<u>\$ 1,227,702</u>	<u>1,188,185</u>	<u>1,065,966</u>	<u>930,357</u>
LIABILITIES AND FUND BALANCE					
Payables and accruals	\$ 19,456	\$ 19,575	\$ 17,649	\$ 13,268	\$ 12,140
Benefits liabilities	1,023,620	1,030,463	1,047,824	1,035,943	1,048,917
Total liabilities	<u>1,043,076</u>	<u>1,050,038</u>	<u>1,065,473</u>	<u>1,049,211</u>	<u>1,061,057</u>
Fund balance	278,703	177,664	122,712	16,755	(130,700)
	<u>\$ 1,321,779</u>	<u>\$ 1,227,702</u>	<u>\$ 1,188,185</u>	<u>\$ 1,065,966</u>	<u>\$ 930,357</u>

Certain of the above figures have been reclassified to conform with the presentation adopted in 2012.

FIVE YEAR HISTORICAL FINANCIAL STATEMENTS (UNAUDITED)
WORKSAFENB

STATEMENT OF OPERATIONS AND FUND BALANCE
For the year ended December 31

	2012 (000s)	2011 (000s)	2010 (000s)	2009 (000s)	2008 (000s)
INCOME					
Assessments	\$ 139,303	\$ 162,428	\$ 168,427	\$ 155,608	\$ 153,442
Self-insured employers	25,292	27,486	32,409	35,051	46,039
Investments	111,152	24,614	93,214	129,850	(162,418)
Province of New Brunswick	–	100	25	900	442
	275,747	214,628	294,075	321,409	37,505
EXPENSES					
Claims costs incurred					
Short-term disability and rehabilitation	29,046	31,438	25,251	37,302	50,381
Long-term disability	29,342	24,883	42,368	51,306	72,916
Survivor benefits	7,670	8,094	6,169	7,917	6,576
Health care	66,530	54,848	75,044	57,841	56,128
	132,588	119,263	148,832	154,366	186,001
Administration	39,215	37,505	37,468	34,950	34,092
Legislative obligations	1,357	1,316	1,337	1,420	1,200
Appeals Tribunal	1,548	1,592	1,506	1,459	1,388
	42,120	40,413	40,311	37,829	36,680
Total expenses	174,708	159,676	189,143	192,195	222,681
Excess of income over (expenses) for the year	101,039	54,952	104,932	129,214	(185,176)
Fund balance, beginning of year	177,664	122,712	17,780	(130,700)	54,476
Legislative change	–	–	–	18,241	–
Fund balance, end of year	\$ 278,703	\$ 177,664	\$ 122,712	\$ 16,755	\$ (130,700)

Certain of the above figures have been reclassified to conform with the presentation adopted in 2012.