WCB-Alberta

Consolidated Financial Statements and Notes

For the year ended December 31, 2020

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Responsibility for Financial Reporting

The consolidated financial statements of the Workers' Compensation Board - Alberta were prepared by management, which is responsible for the integrity and fairness of the data presented, including significant accounting judgements and estimates. This responsibility includes selecting appropriate accounting principles consistent with International Financial Reporting Standards.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management maintains the necessary internal controls designed to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded. The effectiveness of controls over financial reporting was assessed and found to provide reasonable assurance that internal controls at December 31, 2020 operated effectively with no material weaknesses in the design or operation of the controls.

The Board of Directors is responsible for overseeing management in the performance of financial reporting responsibilities and has approved the consolidated financial statements included in the annual report.

The Board of Directors is assisted in its responsibilities by its Audit Committee. This committee reviews and recommends approval of the consolidated financial statements and meets periodically with management, internal and external auditors, and actuaries concerning internal controls and all other matters relating to financial reporting.

Eckler Ltd. has been appointed as the independent consulting actuary to the WCB. Their role is to complete an independent actuarial valuation of the claim benefit liabilities included in the consolidated financial statements of the WCB and to report thereon in accordance with generally accepted actuarial practice.

The Office of the Auditor General, the independent auditor of the WCB, has performed an independent audit of the consolidated financial statements of the WCB in accordance with Canadian generally accepted auditing standards. The Independent Auditor's Report outlines the scope of this independent audit and the opinion expressed.

Erna Ference
Chair, Board of Directors
Workers' Compensation Board – Alberta

Trevor Alexander
President & Chief Executive Officer
Workers' Compensation Board – Alberta

Ron J. Helmhold, FCPA, FCA
Chief Financial Officer
Workers' Compensation Board – Alberta

Auditor General OF ALBERTA

Independent Auditor's Report

To the Board of Directors of the Workers' Compensation Board – Alberta

Report on the Consolidated Financial Statements

Opinion

I have audited the consolidated financial statements of Workers' Compensation Board – Alberta (the Group), which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of comprehensive income, changes in funded position, and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of my report. I am independent of the Group in accordance with the ethical requirements that are relevant to my audit of the consolidated financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Workers' Compensation Board – Alberta 2020 Annual Report*, but does not include the consolidated financial statements and my auditor's report thereon.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the consolidated financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed on this other information, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

My objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]
Auditor General

April 27, 2021
Edmonton, Alberta

ECKLER

Actuarial Statement of Opinion

on the valuation of the claim benefit liabilities of the Workers' Compensation Board – Alberta as at December 31, 2020

I have completed the actuarial valuation of the claim benefit liabilities of the Workers' Compensation Board – Alberta (WCB) for the consolidated financial statements of the WCB as at December 31, 2020 (the "valuation date").

In my opinion, the claim benefit liabilities of $10,396.7 million make reasonable provision for future payments for short-term disability, re-employment services, long-term disability, survivor and health care benefits with respect to claims which occurred on or before the valuation date, and for all occupational disease claims expected to arise after the valuation date as a result of exposures incurred in the workplace on or before the valuation date in respect of occupational diseases with a long latency period that are recognized by the WCB. This amount provides for future claim administration costs, but does not include a provision for benefits and payments that are on a self- insured basis.

The valuation is based on the provisions of the *Workers' Compensation Act* of Alberta and on the WCB's policies and administrative practices in effect at the time of the valuation. Benefit changes resulting from amendments included in Bill 47: *Ensuring Safety and Cutting Red Tape Act, 2020* have been considered and resulted in a reduction of $279.1 million in the claim benefit liabilities, including a $259.1 million decrease for prior years' injuries and exposures.

The data on which the valuation is based were provided by the WCB; I applied such checks of reasonableness of the data as I considered appropriate, and have concluded that the data are sufficiently reliable to permit a realistic valuation of the liabilities and that the data are consistent with WCB's consolidated financial statements. In my opinion, the data on which the valuation is based are sufficient and reliable for the purpose of the valuation.

The economic assumptions adopted for purposes of computing the liabilities are consistent with the WCB's funding and investment policies. For this valuation, a real rate of return of 2.50% per annum was used to discount expected payments subject to inflation. Other economic assumptions underlying the calculations include annual changes in the Consumer Price Index (CPI) of 2.00%, as well as wage and health care escalation at annual rates of 1.00% and 2.00% respectively in excess of CPI. The annual increase for benefits subject to cost of living adjustments (COLA) is assumed at CPI minus 0.47%, following the legislative change; the previous assumption was CPI plus 0.02%.

The assumptions and methods employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. Projections of future claim payments and awards have been made using factors developed from the WCB's claims experience, mortality, and other assumptions. The increase of $426.8 million in the claim benefit liabilities, from $9,969.9 million at the end of 2019 to $10,396.7 million as at December 31, 2020, includes an amount of $178.2 million resulting from changes to the actuarial assumptions and methods. In my opinion, the methods and the assumptions employed in the valuation are adequate and appropriate for the purpose of the valuation.

Details of the data, actuarial assumptions, valuation methods and results are set out in my actuarial report as at the valuation date, of which this statement of opinion forms part.

In my opinion, the amount of the claim benefit liabilities makes appropriate provision for all personal injury compensation obligations and the consolidated financial statements fairly represent the results of the valuation. This report has been prepared, and my opinions given, in accordance with accepted actuarial practice in Canada.

Richard Larouche, FSA, FCIA
Actuary, Eckler Ltd.
April 26, 2021

Workers' Compensation Board – Alberta

Consolidated Statement of Financial Position

As at December 31

($ thousands)	Notes	2020	2019
ASSETS			
Cash and cash equivalents	20(a)	$ 479,293	$ 290,922
Trade and other receivables	20(b)	881,714	79,751
Investments	5	11,472,346	11,821,440
Property, plant and equipment	8	71,223	72,114
Intangible assets	9	50,916	49,854
		$ 12,955,492	$ 12,314,081
LIABILITIES			
Trade and other liabilities	20(c)	$ 55,031	$ 59,910
Investment liabilities	5	-	2,078
Employer liabilities	20(d)	8,422	61,950
Safety rebates	20(e)	74,843	79,112
Employee benefits	12	199,884	154,557
Claim benefits	13	10,396,700	9,969,900
		10,734,880	10,327,507
FUNDED POSITION			
Fund Balance	4	2,220,612	1,986,574
		2,220,612	1,986,574
		$ 12,955,492	$ 12,314,081
COMMITMENTS	11		
CONTINGENCIES AND INDEMNIFICATION	19		

Approved by the Board of Directors on April 27, 2021

Erna Ference
Chair, Board of Directors
Workers' Compensation Board – Alberta

Trevor Alexander
President and Chief Executive Officer
Workers' Compensation Board – Alberta

The accompanying notes are an integral part of these consolidated financial statements.

Workers' Compensation Board – Alberta

Consolidated Statement of Comprehensive Income

Year ended December 31

($ thousands)	Notes	2020 Budget	2020 Actual	2019 Actual
REVENUE				
Premium revenue	16	$ 1,239,180	$ 1,074,149	$ 1,124,225
Investment income	6(a)	600,227	1,087,603	1,474,477
		1,839,407	2,161,752	2,598,702
EXPENSES				
Claim benefit expense	14	1,287,407	1,208,788	1,246,444
Interest expense on claim benefit liabilities	13	432,900	434,500	394,800
Remeasurement of claim benefit liabilities	13	-	51,028	479,360
Corporate administration	17	85,733	80,799	83,408
Injury reduction	20(f)	77,666	68,614	73,115
Investment management expense	6(b)	44,161	41,545	40,546
Interest on employee benefit and other liabilities		5,433	4,797	4,925
		1,933,300	1,890,071	2,322,598
OPERATING SURPLUS (DEFICIT)		(93,893)	271,681	276,104
Funding policy distributions	4	-	(20)	(35)
NET FUNDING SURPLUS (DEFICIT)		(93,893)	271,661	276,069
OTHER COMPREHENSIVE INCOME				
Remeasurement of employee benefit liabilities	12	-	(37,623)	(20,059)
TOTAL COMPREHENSIVE INCOME		$ (93,893)	$ 234,038	$ 256,010

The accompanying notes are an integral part of these consolidated financial statements.

Workers' Compensation Board – Alberta

Consolidated Statement of Changes in Funded Position

Year ended December 31

($ thousands)	Notes	2020	2019
FUND BALANCE			
Accumulated surplus			
Balance, beginning of year		$ 2,026,060	$ 1,207,291
Net funding surplus		271,661	276,069
Transfer from Occupational Disease Reserve		-	542,700
		2,297,721	2,026,060
Accumulated other comprehensive income			
Balance, beginning of year		(39,486)	(19,427)
Other comprehensive loss		(37,623)	(20,059)
		(77,109)	(39,486)
Fund Balance, end of year		2,220,612	1,986,574
OCCUPATIONAL DISEASE RESERVE	4		
Balance, beginning of year		-	542,700
Transfer to Fund Balance		-	(542,700)
Occupational Disease Reserve, end of year		-	-
		$ 2,220,612	$ 1,986,574

The accompanying notes are an integral part of these consolidated financial statements.

Workers' Compensation Board – Alberta

Consolidated Statement of Cash Flows

Year ended December 31

($ thousands)	2020	2019
OPERATING ACTIVITIES		
Cash inflows (outflows) related to business operations		
Employer premiums	$ 246,162	$ 1,165,955
Benefits to claimants and/or third parties on their behalf	(1,127,102)	(1,055,982)
Administrative and other goods and services	(228,084)	(223,389)
Injury reduction program	(68,614)	(73,115)
Net cash used for operating activities	(1,177,638)	(186,531)
INVESTING ACTIVITIES		
Cash inflows (outflows) related to investment assets		
Interest income received	76,002	92,143
Dividend income received	47,398	64,758
Fund distributions received	236,789	280,672
Settlement of derivatives	(28,479)	(19,496)
Investment management expenses	(41,462)	(40,117)
Proceeds from sale of investments, net of cash purchases	1,315,356	136,957
Purchase of investments through reinvestment of income received	(209,460)	(287,250)
Cash outflows related to operating assets		
Purchase of property, plant and equipment	(9,620)	(7,726)
Purchase of computer software	(12,483)	(15,129)
Net cash from investing activities	1,374,041	204,812
FINANCING ACTIVITIES		
Cash outflows related to financing activities		
Payments on lease and other liabilities	(8,032)	(8,027)
Net cash used for financing activities	(8,032)	(8,027)
NET INCREASE IN CASH AND CASH EQUIVALENTS	188,371	10,254
Cash and cash equivalents, beginning of year	290,922	280,668
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 479,293	$ 290,922

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2020 with comparatives for the year ended December 31, 2019 (thousands of dollars unless stated otherwise).

1. REPORTING ENTITY

The Workers' Compensation Board – Alberta (WCB) is a provincial board created by legislation in 1918. As a statutory corporation, WCB administers the workers' compensation system for the province of Alberta under the authority of the *Workers' Compensation Act* (the Act). WCB's corporate head office is located in Edmonton, Alberta, with operations exclusively within the province of Alberta. WCB's legislated mandate is to provide disability benefits to workers who sustain injuries in the course of employment.

2. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied in the preparation of the consolidated financial statements for all years presented, unless otherwise indicated.

GENERAL ACCOUNTING POLICIES

Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They comply, in all material respects, with IFRS as issued by the International Accounting Standards Board (IASB) as set out in Part I of the *Chartered Professional Accountants of Canada Handbook* as at and applicable on December 31, 2020.

These consolidated financial statements have been prepared on a historic cost basis except for investments reported at fair value. The principal accounting policies applied in the preparation of the consolidated financial statements are set out below.

Basis of consolidation

The consolidated financial statements include the assets, liabilities, and results of operations of WCB and its wholly owned subsidiaries, both of which are Alberta registered corporations:

- **WCB Real Assets Ltd.** – holds portfolio investments in infrastructure and timberlands.
- **WCB Global Real Assets Ltd.** – holds portfolio investments in commercial real estate.

All intercompany transactions and balances have been eliminated on consolidation.

Financial statement presentation

WCB presents its consolidated statement of financial position in order of liquidity.

A financial asset and financial liability may be offset only when an entity currently has a legally enforceable and unconditional right of set-off and intends either to settle the asset and liability on a net basis, or to realize the asset and settle the liability simultaneously. Because WCB receivables with credit balances and derivative contracts in a payable position do not satisfy the critical condition of a legally enforceable right of set-off, they are reclassified and presented as employer liabilities and investment liabilities respectively.

The consolidated statement of comprehensive income reports operating results arising from WCB's primary activities: core business operations including risk underwriting, premium assessment and collection, benefit processing, injury treatment and vocational rehabilitation, and financial management including investment portfolio management and claim benefit liability valuation. Administration expense is presented in the consolidated statement of comprehensive income by function. Other comprehensive income consists of net changes in remeasurement of post-employment defined benefit plan liabilities, which is an item that will not be subsequently reclassified to income or expense.

In addition to performance reporting, the consolidated statement of comprehensive income also reports funding actions arising from the application of the Funding Policy as established by the Board of Directors. Such actions may include appropriations of excess surplus for distribution back to employers, or collection of special levies required to replenish funding deficits.

Critical judgements and accounting estimates

Management incorporates critical judgements and accounting estimates in developing and applying accounting policies for recognition and measurement. Such judgements and estimates, which reflect best information at a point in time, affect the carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting periods presented. Actual results in subsequent periods could differ from the judgements and estimates used by management in these consolidated financial statements. These differences, which may be material, could require adjustment in those subsequent periods.

Some accounting measurements require management's best estimates for those transactions for which sufficient information may not be available to record a precise amount. The most significant items that are based on accounting estimates are included in Note 5 *Investments*, Note 12 *Employee Benefits*, Note 13 *Claim Benefit Liabilities* and Note 16 *Premium Revenue*.

The areas where judgements affect the consolidated financial statements are described below.

Control over an investee

In preparing consolidated financial statements, WCB must apply judgement to determine whether it has control or significant influence with respect to the activities of its investees. Control arises from WCB holding voting or contractual rights to direct the activities of the investees affecting returns, and the ability to exercise its voting and/or contractual rights to affect those returns materially. Substantive voting power with respect to relevant activities confers control and results in consolidation of an investee.

For structured entities, such as limited partnerships and similar entities where control stems from contractual or other rights rather than voting power, significant use of judgement is required to evaluate the determinants of control. From its analysis, WCB has concluded that it does not control or have significant influence over its structured entities. As passive portfolio investments, such interests would apply financial instruments accounting.

For further details, see the section *Interests in unconsolidated structured entities* at the end of Note 5.

Fair value measurement

Certain externally managed investments are measured at fair value using valuation models based on discounted future cash flows, rather than directly from observable market prices. Judgement is required to design and build the valuation model(s) using appropriate quantitative methodologies and to select and/or customize the key input assumptions from observable inputs. This includes such factors as the expected yield (i.e., discount rate), revenue and expense growth rates, effect of future inflation, terminal value of assets, income taxes and estimates of the timing and amount of the relevant cash flows.

For further details, see the section *Valuation of financial instruments* in Note 5.

Foreign currency translation

WCB's consolidated financial statements are presented in Canadian dollars, which is also the functional currency. All financial information presented is rounded to the nearest thousand, unless otherwise stated. Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the exchange rate in effect at the date of the consolidated statement of financial position. Exchange differences arising from settlement of monetary items are included in income in the period in which they arise. Non-monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect when those transactions occurred.

Cash equivalents

Cash equivalents include short-term, liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash and short-term investments held by custodians are not available for general use and are accordingly included in investments.

Finance expense

Finance expense comprises primarily recognition of interest (i.e., time value of money) inherent in discounted liabilities. Significant discounted liabilities include claim benefit liabilities, employee benefit plans and lease obligations.

SPECIFIC ACCOUNTING POLICIES

To facilitate a better understanding of WCB's consolidated financial statements, specific accounting policies are disclosed in the related notes:

3. ACCOUNTING POLICY CHANGES

STANDARDS, AMENDMENTS, AND INTERPRETATIONS EFFECTIVE IN CURRENT YEAR

There were no new standards, amendments, or interpretations adopted in the current year.

STANDARDS, AMENDMENTS, AND INTERPRETATIONS ISSUED AS OF YEAR END BUT NOT YET EFFECTIVE

IFRS 17 *Insurance Contracts*

In May 2017, the IASB released the new insurance contracts standard, which prescribes a new measurement model for contracts based on the transfer of insurance risk from a policyholder to an insurer for consideration. This definition applies to statutory workplace injury compensation systems such as WCB.

In November 2020, the IASB issued amendments to IFRS 17, the primary change being the deferral of the effective date to January 1, 2023.

Key features of IFRS 17

For WCB, the proposed approach for valuation of insurance liabilities is expected to be based on the general measurement model (also called the building block approach) prescribed in IFRS 17:

- Unbiased estimate of the expected value of future fulfilment cash flows that reflects the range of all possible outcomes.
- Market consistent discount rates (i.e., updated at the end of each reporting period) that reflect the timing, amount, and risk characteristics of the cash flows of the insurance contract liability.
- A risk adjustment to reflect the compensation that the entity requires for bearing the uncertainty from non-financial risks in fulfilment cash flows.
- A contractual service margin representing the profit, if any, on future services to be provided under insurance contracts.

Changes to current actuarial valuation methodologies will be required in order to align with IFRS 17 requirements.

Financial reporting impacts

Insurance revenue will be reported using a new presentation format in the statement of financial performance (previously referred to as the statement of comprehensive income), with separate subtotals for results from insurance underwriting and asset-liability management activities (i.e., investment returns and interest on the claim benefit liabilities). Enhanced disclosure must be provided on insurance risks, actuarial and accounting judgments, methods and assumptions, as well as sensitivity of key valuation inputs. Until IFRS 17 implementation activities are further advanced, no quantitative determination can be made of the expected effects on WCB's financial statements. Nevertheless, there is likely to be an increase in claim benefit liabilities as a result of the change in discount rate methodology.

Implementation progress

WCB has a multi-year implementation strategy and plan. WCB has completed the technical analysis and impact assessment phases and is finalizing its accounting and actuarial positions as well as implementation approaches on all elements of the IFRS 17 general measurement model. Periodic reports are also provided to the Audit Committee.

Transition and effective date

IFRS 17 is mandatorily effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted. The new standard will be applied using the modified retrospective basis that provides certain transitional relief.

4. FUNDING

Accident Fund

The Act stipulates the creation of an Accident Fund (the Fund) to support a sustainable workers' compensation system for the benefit of workers and employers. Sufficient funds must be available in the Accident Fund for the payment of present and future compensation. WCB must therefore maintain a minimum 100% Funded Ratio (total assets divided by total liabilities) at all times. This Funded Ratio represents the current funding status of the Fund.

The Funded Position represents accumulated net operating surpluses retained against financial uncertainty. As a result of changes made to the funding policy effective January 1, 2019 the Occupational Disease Reserve (ODR) is no longer a separate reserve as it has been combined within the Funded Position.

FUNDING POLICY AND CAPITAL MANAGEMENT

Since the Act does not provide for an ownership-based capital structure, WCB views its available capital resources as synonymous with its Funded Position. The primary objective in managing the Funded Position is to mitigate the risk of being unfunded, while a secondary objective is to minimize premium rate volatility caused by investment and claim benefit liability risk. WCB manages the financial status of the Accident Fund by monitoring the Funded Position and making funding decisions in accordance with the Funding Policy.

The Funding Policy sets a target zone of 114–128% for the Funded Ratio to guide funding decisions. When the Funded Ratio falls below the target zone, special funding requirements are included in premium rates. When the Funded Ratio is above the target zone, funding policy distributions may be paid.

In response to the economic impact of COVID-19 restrictions, WCB implemented the employer premium deferral program mandated by the Government of Alberta in 2020, which directly affected capital management during the year. Funding of continuing investment commitments and operating cash shortfalls due to premium deferral required significant investment redemptions. Portfolio redemptions did not affect year-end funding status, as they were largely offset by receivables due in 2021.

($ thousands)	**2020**	2019
Accident Fund		
Total assets	$ 12,955,492	$ 12,314,081
Less:		
Total liabilities	10,734,880	10,327,507
Funded Position	$ 2,220,612	$ 1,986,574
Funded Ratio	120.7%	119.2%

Additional discussion of COVID-19 impacts on capital management may be found in Note 16 *Premium Revenue*.

5. INVESTMENTS

ACCOUNTING POLICY

WCB's portfolio investments are classified at fair value through income and are managed in accordance with portfolio management objectives and the Investment Policy. WCB utilizes trade-date accounting (date when transactions are entered into, rather than when they are settled) for purchases and sales of financial instruments.

Upon initial recognition, debt and equity securities, which include unit interests in pooled investments, are recognized at their fair value plus costs relating to trade settlement, if applicable. Changes in the carrying value of all portfolio investments arising from subsequent remeasurement are recognized in investment income in the period in which they occur, including the immediate expensing of transaction costs.

Derivatives are recognized at inception, and subsequently remeasured as at the reporting date, at their fair value. Gains and losses resulting from remeasurement are recognized in investment income in the respective periods in which they arise. Derivatives are not used for trading, but to manage economic and asset risk exposures. WCB does not apply hedge accounting with respect to such use of derivatives.

Cash, net receivables and net payables held within the investment portfolio are carried at amortized cost.

Valuation of financial instruments

The fair value of financial instruments as at the reporting date is determined as follows:

Debt and equity securities

- Publicly traded equity securities are based on their closing prices. Debt securities traded over-the-counter are based on the average of the latest bid/ask prices provided by independent third party securities valuation companies.
- Non-publicly traded pooled funds are valued at the net asset value of the funds, which reflect the fair values of fund assets less fund liabilities.
    - The fair value of the underlying loans in the commercial mortgage fund is based on the market interest rate spread over Bank of Canada bonds with a similar term to maturity.
- Structured entities such as limited partnerships and similar private equity funds are also valued at the net asset value of the funds.
    - The fair value of the underlying real assets in real estate, infrastructure, and timberlands funds are based on independent annual appraisals in accordance with generally accepted valuation standards, net of any financing liabilities against specific fund assets.

Further discussion of the valuation of structured entities is provided in the Level 3 fair value hierarchy disclosure in the following section.

Derivative contracts

- Foreign-exchange forward contracts are valued based on the change in the foreign-exchange forward rate of the underlying currency pairing specified in the forward contract.
- Equity index futures are valued based on their closing prices on the exchange in which they trade. These prices reflect changes in the equity market index specified in the futures contract.
- Currency futures are valued based on quoted prices on the exchange in which they trade. These prices reflect changes in the foreign-exchange forward rate of the underlying currency pairing specified in the futures contract.
- Bond futures are valued based on settlement prices on the exchange in which they trade. These prices reflect changes in the bid/ask prices of the underlying bonds in dealer markets.

INVESTMENT PORTFOLIO HOLDINGS

WCB's portfolio investments are all classified at fair value through income. The table in this section presents the fair value of WCB's investments as at December 31, together with their classifications under the fair value measurement hierarchy. Note 6 *Investment Income and Expense* provides a breakdown of investment income by type.

Fair value classification hierarchy

The fair value of WCB's investments recorded on the consolidated statement of financial position was determined using one of the following valuation techniques:

Level 1 The fair value is based on quoted prices in active markets for identical assets or liabilities. This level includes equity securities and derivative contracts that are traded in an active exchange market.

Level 2 The fair value is based on inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs based on observable market data. It includes pooled funds invested in traded securities, as well as derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

Level 3 The fair value is based on unobservable inputs that are significant to the fair value of the assets or liabilities and have little or no market activity. This level includes financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgement or estimation. The most significant inputs affecting the fair value calculations include the projected operating and capital-related cash flows and the associated discount rate. The discount rate is responsive to changes in macroeconomic factors affecting the risk profile of invested assets such as demand, market conditions, financial risks, future inflation, and so on. This level includes pooled funds invested in debt securities, private equity, real estate, infrastructure and timberlands.

The table below summarizes the basis of fair value measurements for financial assets and liabilities held in WCB's investment portfolio:

($ thousands)	Fair value through income Level 1	Level 2	Level 3	Fair Value	Amortized Cost[5]	2020	2019
Fixed income							
Nominal bonds	$ -	$ -	$ 2,615,309	$ 2,615,309	$ -	$ 2,615,309	$ 2,659,593
Mortgages [1]	-	-	315,151	315,151	-	315,151	488,858
	-	-	2,930,460	2,930,460	-	2,930,460	3,148,451
Equities							
Domestic	588,663	589,506	-	1,178,169	14,536	1,192,705	1,193,266
Foreign [2]	1,979,581	1,258,412	-	3,237,993	18,447	3,256,440	3,247,996
	2,568,244	1,847,918	-	4,416,162	32,983	4,449,145	4,441,262
Inflation-sensitive							
Real estate [3]	171,893	-	1,166,456	1,338,349	701	1,339,050	1,551,299
Infrastructure [4]	401,951	-	1,284,523	1,686,474	27,264	1,713,738	1,736,148
Timberlands	-	-	96,760	96,760	-	96,760	96,340
Real-return bonds	-	-	910,071	910,071	-	910,071	802,016
	573,844	-	3,457,810	4,031,654	27,965	4,059,619	4,185,803
	3,142,088	1,847,918	6,388,270	11,378,276	60,948	11,439,224	11,775,516
Derivative assets	-	33,122	-	33,122	-	33,122	45,924
Derivative liabilities [6]	-	-	-	-	-	-	(2,078)
Investments (net of derivatives)	$ 3,142,088	$ 1,881,040	$ 6,388,270	$ 11,411,398	$ 60,948	$ 11,472,346	$ 11,819,362
Presented as:							
Investments	$ 3,142,088	$ 1,881,040	$ 6,388,270	$ 11,411,398	$ 60,948	$ 11,472,346	$ 11,821,440
Derivative liabilities [6]	-	-	-	-	-	-	(2,078)
Investments (net of derivatives)	$ 3,142,088	$ 1,881,040	$ 6,388,270	$ 11,411,398	$ 60,948	$ 11,472,346	$ 11,819,362

[1] *Mortgages include commercial mortgages and multi-unit mortgages, excluding single-dwelling residential mortgages.*
[2] *Foreign equities comprise U.S., EAFE (Europe, Australasia, and Far East), and Emerging Markets mandates.*
[3] *Real estate Level 3 investments consist of pooled funds invested in commercial properties.*
[4] *Infrastructure Level 3 investments consist of pooled funds invested in infrastructure projects.*
[5] *Includes portfolio cash, receivables, and payables whose cost approximates fair value.*
[6] *Derivative liabilities are presented as investment liabilities in the consolidated statement of financial position.*

Transfers between levels

There were no material transfers between levels during 2020 or 2019.

Reconciliation of Level 3 activity

($ thousands)	Fixed Income	Real Estate	Infrastructure	Timberlands	Real Retun Bonds	2020 Total	2019 Total
Balance, beginning of year	$ 836,512	$ 1,352,316	$ 1,209,064	$ 96,340	$ -	$ 3,494,232	$ 3,328,086
Income distributions	15,863	-	-	-	-	15,863	21,351
Fair value changes	40,026	(143,232)	96,592	420	-	(6,194)	62,832
Purchases of Level 3 investments	2,278,075	24,743	127,001	-	910,071	3,339,890	146,852
Sale/settlement of Level 3 investments	(240,016)	(67,371)	(148,134)	-	-	(455,521)	(64,889)
Balance, end of year	$ 2,930,460	$ 1,166,456	$ 1,284,523	$ 96,760	$ 910,071	$ 6,388,270	$ 3,494,232

INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

Through its investment program, WCB is involved with structured entities which comprise structured vehicles (i.e., limited partnerships and structured equity) invested in operating property assets, as well as pooled funds invested in financial instruments of property-based issuers. The following discusses some unique characteristics of such entities and the nature of the risks attached to them.

Relevant activities of the structured entities that affect returns include identification, selection and/or development and operation of established properties with stable cash flows and strong capital appreciation potential. Development and execution of an exit strategy is another important activity.

Significant constraints are imposed on funds invested in structured entities, by virtue of their legal agreements, regulatory environment and the nature and economics of the underlying assets. Once committed, an investor is expected to fund the entire subscribed amount over the term of the agreement (typically over the next five to ten years), unless the investment agreement provides otherwise. Once invested, funds are no longer available to the investor, and withdrawal through sale or transfer of interests is permitted only after a certain period as stipulated in the agreement.

The primary risk to WCB relating to these structured entities is lack of liquidity due to the size of the positions and the limited number of qualifying investors; and, these entities are invested in specialized or long-term assets that are difficult to liquidate due to the nature of their markets. WCB is also exposed to market and operating risks based on the underlying assets held by these entities. WCB's financial exposure is limited to the net carrying amount of the investment and undrawn commitments.

The following table provides information about WCB's interests in unconsolidated structured entities:

($ thousands)	**2020**		2019	
Structured Entity Type by Mandate	**Carrying Value**	**Undrawn Funding Commitments**	Carrying Value	Undrawn Funding Commitments
Limited partnerships				
Nominal bonds	$ -	$ -	$ 6,134	$ -
Real estate	128,749	22,231	190,843	26,580
Infrastructure	1,284,523	283,399	1,209,064	356,859
Timberlands	96,760	41,005	96,340	41,737
	1,510,032	346,635	1,502,381	425,176
Structured equity				
Real estate	636,168	-	712,440	-
	$ 2,146,200	$ 346,635	$ 2,214,821	$ 425,176

INVESTMENT MANAGEMENT TRANSITION

In November 2019 the Government of Alberta enacted Bill 22 *Reform of Agencies, Boards and Commissions and Government Enterprises Act*. Bill 22 includes a requirement for WCB to transition the management of the investment portfolio to Alberta Investment Management Corporation (AIMCo) by December 31, 2021.

WCB and AIMCo agreed to a staged approach for the transition of assets over a two-year period in order to reduce transition risks and complexities. Transfer of WCB's internally managed fixed income mandates was largely completed in Q4 2020. Timing for the transition of the remaining mandates remains to be determined. No material impact on financial performance resulting from the transition is expected.

Additional discussion on the transition may be found in Note 18 *Related Party Transactions*.

6. INVESTMENT INCOME AND EXPENSE

ACCOUNTING POLICY

The primary components of investment income include:

(a) Gains and losses from investments classified at fair value through income (including gains and losses from remeasurement and from disposition of assets) recognized in income in the period in which they arise;

(b) Interest revenue accrued using the effective interest method, net of amortization of any premium or discount recognized at date of purchase;

(c) Dividend income when a right to payment has been established based on the ex-dividend date for quoted securities; and

(d) Pooled fund distributions (i.e., fund income received as cash or reinvested in the fund) when a right to distributable income has been established. Fund distributions do not attribute underlying income by nature.

Investment expense is composed primarily of investment management expenses, for both external and internal portfolio managers. Fund management expenses of pooled investments, excluding investment management fees, are netted against the revenues of those respective funds.

(a) Investment Income

($ thousands)						**2020**	2019
	Interest	Dividends	Fund Distributions[1]	Gains (Losses) on Investments[2]	Gains (Losses) on Derivatives[3]	**Total**	Total
Fixed income							
Bonds	$ 60,607	$ -	$ 1,133	$ 286,162	$ 17,090	$ 364,992	$ 241,791
Mortgages	-	-	15,863	10,429	-	26,292	23,729
Short-term investments	3,398	-	-	-	-	3,398	6,127
	64,005	-	16,996	296,591	17,090	394,682	271,647
Equities							
Domestic equities	-	17,694	42,334	(40,588)	-	19,440	197,903
Foreign equities	-	28,353	9,570	583,832	5,227	626,982	615,954
	-	46,047	51,904	543,244	5,227	646,422	813,857
Inflation-sensitive							
Real estate	-	-	11,385	(180,660)	-	(169,275)	123,234
Infrastructure	-	-	150,156	89,008	(29,439)	209,725	254,286
Timberlands	-	-	5,442	420	187	6,049	11,453
	-	-	166,983	(91,232)	(29,252)	46,499	388,973
	$ 64,005	$ 46,047	$ 235,883	$ 748,603	$ (6,935)	$1,087,603	$1,474,477

(b) Investment Management Expense

($ thousands)	**2020**	2019
Fund management fees	$ 37,926	$ 36,796
Custody fees	497	448
Investment administration [4]	3,122	3,302
	$ 41,545	$ 40,546

[1] *Fund Distributions include distributions received from fund managers, irrespective of the type of underlying income within the fund.*
[2] *Gains (Losses) on Investments include realized amounts from disposition and fair value remeasurement.*
[3] *Gains (Losses) on Derivatives include fair value measurement and settlement gains and losses, as well as adjustments for counterparty default risk, if any.*
[4] *Investment administration represents internal investment management expenses, see Note 17* Administration Expense.

7. INVESTMENT RISK MANAGEMENT

INVESTMENT GOVERNANCE

The Board of Directors is ultimately responsible for overall strategic direction and governance of the investment portfolio through its review and approval of the Investment Policy and ongoing monitoring of investment risks, performance, and compliance.

WCB management is responsible for monitoring investment performance, recommending changes to the Investment Policy, and selecting fund managers. WCB retains independent consultants to benchmark the performance of its fund managers, and to advise on the appropriateness and effectiveness of its Investment Policy and practices.

With the transition of investments to AIMCo, a new governance framework and related monitoring and compliance processes will be implemented as appropriate.

KEY FINANCIAL RISKS

The primary financial risk for WCB is the risk that, in the long term, returns from its investments will not be sufficient to discharge all obligations arising from its claim benefit liabilities. In order to manage this funding risk, risk management for investments has been integrated with risk management of liabilities. WCB's primary risk mitigation strategy is effective execution of its Investment Policy. The Investment Policy target asset mix, and associated risk and return characteristics, have been established to provide guidelines for a broad investment strategy, as well as specific approaches to portfolio management. The Investment Policy also calls for maintaining a well-diversified portfolio, both across and within asset classes, as well as engaging fund managers who represent a broad range of investment philosophies and styles, operating within a rigorous compliance framework.

WCB has identified key areas of investment risk that directly affect the sufficiency of its investments to fund current and future claim obligations:

Market risks
- These risks include movements in equity market prices, interest rates, credit spreads, and foreign currency exchange rates.

Portfolio risks
- These risks relate to specific composition and management of WCB's portfolio and include liquidity risk, securities lending risk, counterparty default risk and derivatives risk.

The following sections describe these risks, WCB's exposures, and their respective mitigation strategies.

MARKET RISKS

Equity market risk

WCB is exposed to equity market risk, which is the risk that the fair value of its investments in publicly traded shares will fluctuate in the future because of price changes. WCB's mitigation strategy for equity market risk is to apply disciplined oversight of investment activities within a formal investment control framework that has been reviewed and validated by independent experts to ensure continuous compliance with approved policies and practices.

The table below presents the effect on WCB's equity mandates of a significant adverse change[1] in the key risk variable - the amount of portfolio volatility:

($ thousands)	**2020**		2019	
Equities	**1 std dev**	**2 std dev**	1 std dev	2 std dev
% change in portfolio	(14.1%)	(28.2%)	(9.2%)	(18.4%)
Canadian	$ (168,066)	$ (336,133)	$ (110,005)	$ (220,010)
% change in portfolio	(11.3%)	(22.6%)	(10.3%)	(20.6%)
Global	$ (304,743)	$ (609,486)	$ (281,028)	$ (562,056)
% change in portfolio	(15.5%)	(31.0%)	(14.7%)	(29.3%)
Emerging markets	$ (87,401)	$ (174,801)	$ (75,710)	$ (151,421)

[1] *A change is considered to be material when it exceeds the standard deviation (std dev), which measures the variance in a normal probability distribution. One standard deviation covers 68% of all probable outcomes; two standard deviations include 95% of outcomes. The benchmark deviations are based on 2020 data.*

Fixed income pricing risk

Fixed income pricing risk related to financial securities arises from changes in general financial market or economic conditions that may change the pricing of the entire non-government bond market, specific sectors, or individual issuers. This risk is generally manifested through changes in the security's credit spread. WCB's investment portfolio is exposed to fixed income pricing risk through participation in a Canadian mortgage pool and in pooled investments with holdings in Canadian and foreign fixed income securities.

The table below presents the effects of a change in the credit spreads of 50 and 100 bps[1] on the mortgage portfolio and on the fixed income portfolio:

($ thousands)	**2020**		2019	
Change in credit spreads	**+50 bps**	**+100 bps**	+50 bps	+100 bps
Nominal bonds	$ (97,946)	$ (195,893)	$ (26,605)	$ (53,210)
Mortgages	$ (3,939)	$ (7,879)	$ (6,355)	$ (12,710)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The table below presents the effects of a nominal interest rate change of 50 and 100 bps on the respective bond and mortgage portfolios:

($ thousands)	**2020**		2019	
Change in nominal interest rate	**+50 bps**	**+100 bps**	+50 bps	+100 bps
Nominal bonds	$ (97,946)	$ (195,893)	$ (92,381)	$ (184,763)
Real return bonds	$ (76,901)	$ (153,802)	$ (60,793)	$ (121,586)
Mortgages	$ (3,939)	$ (7,879)	$ (6,355)	$ (12,710)

Foreign currency risk

Currency risk is the risk that the value of financial assets and liabilities denominated in foreign currencies will fluctuate due to changes in their respective exchange rates.

WCB is exposed to currency risk through foreign investments in fixed income, equities, infrastructure and timberlands. The exposures are economically hedged to the Canadian dollar by utilizing futures and forward contracts. The target hedge ratio (i.e., percentage of the exposure hedged to Canadian dollars) varies by asset class and currency. The target for fixed income, infrastructure and timberlands is 100%. For foreign equities, the target is 25% for the U.S. dollar and 50% for other major currencies.

WCB's largest foreign currency exposure is to the U.S. dollar, with unhedged holdings of $1,793,212 (2019 – $1,873,200); euro exposure is next, with unhedged holdings of $312,174 (2019 – $234,409); all other currencies have unhedged holdings of $427,425 (2019 – $381,629). For the current reporting period, the net loss from the currency overlay was $35,423 (2019 – net gain $126,473).

The table below presents the effects of a material change in the Canadian/U.S. dollar and Canadian/Euro exchange rate on the investments denominated in foreign currencies:

($ thousands)	**2020**		2019	
	CAD/USD	**CAD/EUR**	CAD/USD	CAD/EUR
December 31 spot rate	0.7849	0.6415	0.7712	0.6870
10% appreciation in the Canadian dollar	0.8634	0.7057	0.8483	0.7557
Global	$ (163,019)	$ (28,379)	$ (170,291)	$ (21,310)

[1] *One basis point (bp) equals 1/100 of 1%; 50 bps = 50/100 of 1% or 0.5%.*

PORTFOLIO RISKS

Derivatives risk

Although derivatives represent an important component of WCB's risk management strategy, the portfolio does not contain any derivatives intended for speculative or trading purposes. An example of derivatives used for risk mitigation is the currency overlay described in the currency risk section, which is a partial economic hedge of the currency exposure. From time to time, derivatives are also used as a portfolio management technique to replicate a target asset mix or achieve certain asset exposures when it is not possible or cost-effective to hold or sell securities directly.

The notional value of a derivative contract used in an economic hedging arrangement, represents the exposure that is being hedged, and is the amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional amounts are not indicative of the credit risk associated with such derivative contracts. WCB's credit exposure is represented by the replacement cost of all outstanding contracts in a receivable (positive fair value) position.

The table below summarizes the fair value of WCB's derivative portfolio of open contract positions in segregated funds as at December 31. Derivative contracts in a gain position (financial assets) have been presented separately from contracts in a loss position (financial liabilities) and are presented with their remaining terms to maturity.

($ thousands)		**2020**			2019		
	Term to Maturity	**Notional Principal**	**Derivative Contract Assets**	**Derivative Contract Liabilities**	Notional Principal	Derivative Contract Assets	Derivative Contract Liabilities
Asset replication contracts	Within 1 year	$ -	$ -	$ -	$ 141,896	$ -	$ (2,078)
Foreign-exchange contracts	Within 1 year	2,426,727	33,122	-	2,459,319	31,023	-
		$2,426,727	$ 33,122	$ -	$2,601,215	$ 31,023	$ (2,078)

The table above presents gross derivative exposures by type of contract, whereas the derivative liabilities presented in the statement of financial position represent net obligations by counterparty. WCB also has indirect exposure to derivatives risk through its pooled investments.

Liquidity risk

Liquidity risk is the risk that WCB will encounter difficulty in meeting obligations associated with its liabilities, particularly claim benefit liabilities, which are funded from cash and cash equivalents, as well as investments where necessary. This risk stems from the lack of marketability of a security that cannot be bought or sold quickly enough to prevent or minimize a loss.

Through a proactive cash management process that entails continuous forecasting of expected cash flows, WCB mitigates liquidity risk by minimizing the need for forced liquidations of portfolio assets in volatile markets and by holding a number of investments in readily marketable instruments (publicly traded equity and fixed income securities). Some investments, particularly those in structured entities, are not readily marketable or liquid, as discussed in the section *Interests in unconsolidated structured entities* in Note 5.

To cover unanticipated cash requirements when market conditions are unfavourable, WCB also has an available standby line of credit of up to $20 million, with provision for it to increase to $100 million for 6 months during the year, which has not been drawn down as at December 31, 2020 or 2019.

Counterparty default risk

Counterparty default risk arises from the possibility that the issuer of a debt security, or the counterparty to a derivatives contract, fails to discharge its contractual obligations to WCB.

To mitigate counterparty default risk, WCB requires that credit ratings for counterparties not fall below an acceptable threshold. The Investment Policy permits bond issuers to have lower than a BBB- (or equivalent) score from a recognized credit-rating agency, but such holdings may not exceed 10% of total fixed income assets in the portfolio. Counterparties for derivative contracts will have at least an A- credit rating or equivalent from a recognized credit-rating agency. Each fund is closely monitored for compliance to ensure that aggregate exposures do not exceed those specified investment constraints.

As at December 31, 2020, WCB no longer holds any fixed income securities in segregated funds as these assets were transferred to AIMCo during the year (2019 - $87,156 in holdings below BBB-). WCB has only indirect exposure to counterparty default risk through its participation in pooled investments.

Securities lending risk

WCB participates in a securities-lending program sponsored by its custodian. Under IFRS 9, securities-lending arrangements are considered transfers of assets that are not derecognized because the transferor retains substantively the risks and rewards of ownership, notwithstanding the transferee's right to sell or pledge those assets. WCB is protected against loss of the transferred securities by requiring the borrower to provide collateral in the form of marketable securities having a minimum fair value of 102% of the loan. Such collateral is not recognized because it is available to the transferor only upon failure of the transferee to fulfil its commitments. In any event, the custodian is also contractually obligated to indemnify WCB for any losses resulting from inadequate collateral.

At December 31, 2020, securities on loan through the custodian totalled $549,399 (2019 – $1,730,128), secured by $589,798 (2019 – $1,877,248) of posted collateral. During 2020, the securities-lending program generated income of $2,588 (2019 – $3,807).

8. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICY

Property, plant and equipment expenditures are recognized as an asset if it is probable that WCB will realize future economic benefits. Items are initially measured at acquisition cost, and subsequently at amortized cost.

When WCB enters into leases of property, plant and equipment, and contracts for supply of goods and services conveying a right to use identified assets that requires lease recognition. The resulting right-of-use asset is classified under the applicable class of property, plant, and equipment, and accounted for in accordance with the relevant accounting policy for that class.

After initial recognition, property, plant and equipment is carried at acquisition cost less accumulated depreciation and impairment (if applicable) with the exception of land, which is not depreciated. Leased assets and leasehold improvements are amortized over their expected lease term, including probable extensions or early termination, and adjusted for impairment. All other items are depreciated over their expected economic or useful life. Depreciation expense is recognized when an asset is ready for use, and when WCB has control over the use of a lease asset.

Residual values, useful lives, expected lease terms, and depreciation/amortization rates are reviewed at each financial year-end and adjusted if appropriate. Depreciation and amortization expense are included in claims management and corporate administration in the statement of comprehensive income.

WCB applies the following annual rates and methods for depreciation of owned assets:

Buildings	*2.5% straight-line*
Leasehold improvements	*Straight-line over the expected lease term*
Computer equipment	*35% declining balance*
Furniture and other	*15% declining balance*
Vehicles	*20% straight-line*

For leased assets, WCB applies straight-line amortization over the expected lease term.

WCB evaluates its property, plant and equipment for indicators of impairment such as obsolescence, redundancy, deterioration, loss or reduction in future service potential, or when there is a change in intended use or underutilization of an owned and/or a right-of-use asset. When the carrying value exceeds the amount of future economic benefit based on expected utilization, the item of property, plant and equipment is written down to the recoverable amount and the amount recognized as an impairment loss.

The following table provides details of property, plant and equipment broken down between assets acquired through purchase and right-of-use assets arising from leasing.

($ thousands)	Land/ Buildings	Leasehold Improvements	Computer Equipment	Office Furniture/ Equipment	Vehicles/ Other	**2020** Total	2019 Total
Owned assets, at cost							
Balance, beginning of year	$ 70,344	$ 1,834	$ 29,985	$ 24,043	$ 846	$ 127,052	$ 121,919
Current period activity:							
Capitalized expenditure	3,501	25	3,840	2,023	154	9,543	6,680
Transfer from PPE under construction	(1,191)	-	(506)	(1,383)	-	(3,080)	(2,786)
Disposals	(690)	-	(16,115)	(298)	(98)	(17,201)	(1,841)
PPE under construction	-	-	3,029	806	-	3,835	3,080
Balance, end of year	$ 71,964	$ 1,859	$ 20,233	$ 25,191	$ 902	$ 120,149	$ 127,052
Accumulated depreciation and impairment							
Balance, beginning of year	$ 28,059	$ 1,559	$ 18,946	$ 16,474	$ 655	$ 65,693	$ 57,818
Current period activity:							
Depreciation	1,922	58	7,543	1,158	90	10,771	9,716
Disposals	(690)	-	(16,115)	(298)	(98)	(17,201)	(1,841)
Balance, end of year	$ 29,291	$ 1,617	$ 10,374	$ 17,334	$ 647	$ 59,263	$ 65,693
Carrying value, beginning of year	$ 42,285	$ 275	$ 11,039	$ 7,569	$ 191	$ 61,359	$ 64,101
Carrying value, end of year	$ 42,673	$ 242	$ 9,859	$ 7,857	$ 255	$ 60,886	$ 61,359
Right-of-use assets, at cost							
Balance, beginning of year	$ 7,851	$ -	$ 6,130	$ 493	$ -	$ 14,474	$ 5,770
Current period activity:							
Adjustment on adoption of IFRS16	-	-	-	-	-	-	7,869
Capitalized lease commitments	415	-	2,244	-	-	2,659	2,422
Disposals	-	-	(2,138)	-	-	(2,138)	(1,587)
Balance, end of year	$ 8,266	$ -	$ 6,236	$ 493	$ -	$ 14,995	$ 14,474
Accumulated depreciation and impairment							
Balance, beginning of year	$ 841	$ -	$ 2,716	$ 162	$ -	$ 3,719	$ 2,437
Current period activity:							
Depreciation	903	-	2,077	97	-	3,077	2,869
Disposals	-	-	(2,138)	-	-	(2,138)	(1,587)
Balance, end of year	$ 1,744	$ -	$ 2,655	$ 259	$ -	$ 4,658	$ 3,719
Carrying value, beginning of year	$ 7,010	$ -	$ 3,414	$ 331	$ -	$ 10,755	$ 3,333
Carrying value, end of year	$ 6,522	$ -	$ 3,581	$ 234	$ -	$ 10,337	$ 10,755
Total owned and right-of-use assets							
Carrying value, beginning of year	$ 49,295	$ 275	$ 14,453	$ 7,900	$ 191	$ 72,114	$ 67,434
Carrying value, end of year	$ 49,195	$ 242	$ 13,440	$ 8,091	$ 255	$ 71,223	$ 72,114

See Note 10 *Leases* for accounting policy and further details on leased property, plant and equipment, and Note 17 *Administration Expense* for depreciation expense.

9. INTANGIBLE ASSETS

ACCOUNTING POLICY

WCB's intangible assets are composed of computer software developed internally or acquired through third party vendors and customized as necessary. Development expenditure is capitalized only if the directly related costs (both internal and external) can be measured reliably, the product or process is technically feasible, future economic benefits are probable, and WCB has the intention and sufficient resources to complete development and to use the asset in the manner intended.

Computer software is measured at cost upon initial recognition. After initial recognition, computer software is measured at cost less accumulated amortization and impairment (if applicable). Computer software is amortized on a straight-line basis at 20% per year commencing from the date that the software is available for use.

Residual value, useful lives and amortization methods are reviewed at each financial year-end and adjusted if appropriate. Amortization expense is included in claim benefit expense and corporate administration in the consolidated statement of comprehensive income (see Note 17 *Administration Expense*).

WCB evaluates its intangible assets for indicators of impairment. When the carrying value exceeds the amount of future economic benefit through utilization, the item is written down to the recoverable amount and the amount recognized as an impairment loss.

($ thousands)			**2020**	2019
	In Use	Under Development	**Total**	Total
Cost				
Balance, beginning of year	$ 124,961	$ 27,257	$ 152,218	$ 138,346
Capitalized expenditure	-	12,258	12,258	14,855
Transfers from development	36,061	(36,061)	-	-
Disposals	(44,941)	-	(44,941)	(983)
Balance, end of year	$ 116,081	$ 3,454	$ 119,535	$ 152,218
Accumulated amortization and impairment				
Balance, beginning of year	$ 102,364	$ -	$ 102,364	$ 94,941
Amortization	11,196	-	11,196	8,406
Disposals	(44,941)	-	(44,941)	(983)
Balance, end of year	$ 68,619	$ -	$ 68,619	$ 102,364
Carrying value, beginning of year	$ 22,597	$ 27,257	$ 49,854	$ 43,405
Carrying value, end of year	$ 47,462	$ 3,454	$ 50,916	$ 49,854

10. LEASES

ACCOUNTING POLICY

At inception of a lease or supply contract, WCB recognizes a right-of-use asset and a corresponding lease liability if both of the following conditions have been met throughout the contract period:

(a) WCB has the right to obtain substantially all the economic benefits from use of an identified asset; and

(b) WCB has the right to direct the use of the identified asset throughout the period of use

The lease term begins at the commencement date, extends through the non-cancellable period of the lease, and includes any renewal periods or early termination options that WCB is likely to exercise.

At the commencement date, WCB measures the lease liability at cost, representing the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease, if it is known or readily determinable. If not, WCB uses its incremental borrowing rate as at that date for a loan of similar amount, payment terms, and maturity. The right-of-use asset is measured at the amount of the lease liability, less any lease incentives received and/or lease payments made at or before the lease commencement date. As well, at the commencement date, incentives received or due from the lessor to enter into or to extend the lease are recognized, measured at their present value, and offset against the right-of-use asset.

Leases with low value assets (unit value of $5,000 or less), and leases with an expected term of 12 months or less at date of commencement are exempt from the requirements to recognize a right-of-use asset and lease liability. Although exempt, WCB applies IFRS 16 to groups of low value desktop computer equipment acquired under a master lease agreement. These lease asset pools (portfolios) are measured at their aggregate present value as at their commencement date, recognized as right-of-use assets and related lease obligations.

Subsequent measurement of right-of-use assets and liabilities for leases of individual assets and asset pools is at amortized cost. Right-of-use assets are depreciated on a straight-line basis over their expected lease term.

Lease payments are allocated between the liability and finance charges using the effective interest method to achieve a constant rate of interest on the remaining balance of the lease. The interest portion of the payment is charged to income over the lease period, while the principal portion is applied against the lease obligation.

LEASES

Leasing objectives

WCB's rationale for acquiring critical business assets through leasing is to realize operational flexibility, rather than to finance asset ownership. For critical information technology and office equipment, WCB uses leasing to manage obsolescence risk, to provide operational flexibility in meeting both short and long-term business demands, and to access value-added services bundled with certain lease arrangements. For some critical technology, vendor pricing is more cost-effective through leasing rather than purchasing. For facilities, the economic benefits from leasing accrue mainly from flexibility in meeting short-term space demands, acquiring office space that does not warrant a long-term capital investment in real assets, but in some circumstances, the required space is only available through a long-term lease.

Lease obligations

WCB has obligations under non-cancellable lease agreements for computer and office equipment, typically for terms between three and five years. Some WCB facilities are under leases with remaining terms of between one and fourteen years. On rare occasions, WCB may enter into short-term arrangements for office space and/or for low value assets; however, such commitments and the amounts charged to administration expense are generally not material.

The following table provides a reconciliation of lease transactions and obligations for the period ended December 31, 2020.

($ thousands)	Land / Buildings	Computer Equipment	Office Furniture / Equipment	**2020** Total	2019 Total
Lease obligations					
Balance, beginning of year - as reported	$ 7,218	$ 3,541	$ 337	$ 11,096	$ 3,537
Transitional adjustments	-	-	-	-	7,869
Balance, beginning of year - adjusted	$ 7,218	$ 3,541	$ 337	$ 11,096	$ 11,406
Current year activity:					
Additions	415	2,244	-	2,659	2,422
Lease payments	(895)	(2,210)	(106)	(3,211)	(3,073)
Lease interest	242	61	10	313	341
Balance, end of year	$ 6,980	$ 3,636	$ 241	$ 10,857	$ 11,096

See Note 8 *Property, Plant and Equipment* for carrying values of lease right-of-use assets and their related depreciation, and Note 20(c) *Trade and Other Liabilities* for presentation of lease obligations.

The undiscounted future cash outflows and the maturities related to these lease obligations are broken out in the table below.

($ thousands)	**2020**	2019
2020	$ -	$ 2,803
2021	2,786	1,972
2022	2,252	1,418
2023	1,477	978
2024	1,233	1,094
2025 and beyond	4,303	4,276
	$ 12,051	$ 12,541

Exempt leases

Leases for low value assets or for terms of twelve months or less are exempt from the requirements to recognize a right-of-use asset and lease liability, and are charged to expense as incurred. As at December 31, 2020, exempt lease expense was insignificant.

11. COMMITMENTS

In addition to leases, WCB has other contractual commitments to purchase goods and services in the course of its ordinary business activities that will be fulfilled over a number of future periods. The undiscounted future cash outflows and the maturities related to these commitments are broken out in the table below.

($ thousands)	**2020**	2019
2020	$ -	$ 24,902
2021	13,084	8,241
2022	3,482	1,237
2023	1,433	1,220
2024	1,422	1,220
2025 and beyond	1,619	1,399
	$ 21,040	$ 38,219

WCB also has investment commitments for capital funding of certain limited partnerships. For details of the amount funded to date and the remaining undrawn portion of the total commitments, see the section *Interests in Unconsolidated Structured Entities* in Note 5 *Investments*.

12. EMPLOYEE BENEFITS

ACCOUNTING POLICY

WCB provides active service and defined post-employment benefits to its employees. WCB also participates in certain multi-employer pension plans sponsored by the province of Alberta. An expense and a liability for benefits earned are recognized in the period that employee service has been rendered.

For defined post-employment benefit plans, current service cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the projected unit credit actuarial method, a market interest rate and management's best estimate of projected benefit costs. The net plan liability as at the reporting date is the present value of the defined benefit obligation, which is determined by discounting the estimated future cash outflows using a discount rate based on market yields of high-quality corporate bonds having terms to maturity that approximate the duration of the related benefit liability less the fair value of plan assets. Current service cost and interest expense of pension and other post-employment benefits are estimated using different discount rates derived from the same yields, reflecting the different timing of benefit payments for past service (the defined benefit obligation) and future service (the current service cost). Current service cost, interest expense and interest income comprise the amount required in each year to build up the liability over the projected benefit period to its future value.

Remeasurement changes in plan assets and benefit liabilities, arising from actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

ACTIVE SERVICE BENEFITS

WCB's short-term benefits for active employees include salary, compensated absence (sick leave, statutory holidays, and annual vacation), group life insurance, dental and medical coverage, employee family assistance program, education support and health and wellness benefits.

Termination benefits are provided for through employment contracts, statutory requirements or constructive obligations. As at December 31, 2020 and 2019, there were no material expenditures or provisions relating to termination benefits.

POST-EMPLOYMENT BENEFITS

Pension plans

Employee post-retirement benefits are provided through contributory multi-employer defined benefit pension plans sponsored by the province of Alberta, namely the Public Service Pension Plan (PSPP) and the Management Employees Pension Plan (MEPP). Under defined benefit plan accounting, WCB must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, remeasurement amounts, service cost, interest expense and interest income prorated on WCB's share of total contributions.

Both plans have funding deficiencies that have statutory funding requirements by employers and employees to eliminate any plan deficiencies over a specific time horizon. The information in this note reflects the annual actuarial valuation of WCB's share of the plans' assets, benefit obligations, remeasurement amounts, service cost, interest expense and interest income.

Supplemental executive retirement plan

WCB sponsors a non-contributory supplemental executive retirement plan (SERP). Earnings of senior management generally exceed the threshold earnings for the maximum pension benefit permitted under the federal *Income Tax Act*. Under the terms of the SERP, senior management is entitled to receive supplemental retirement payments that bring their total pension benefits to a level consistent with their total earnings for service since the inception of the SERP or appointment to a senior management position, whichever is later. Future pension benefits are based on the participants' years of service and earnings.

See Note 18 *Related Party Transactions* for a breakdown of SERP costs by executive position.

Post-retirement benefit plan

WCB provides a contributory benefit plan that provides dental and health care benefits to retirees on pensions between the ages of 55 to 65. As plan participants pay part of the benefit cost, the benefit obligation represents the difference between actual costs and contributions subsidized by WCB.

OTHER BENEFIT PLANS

Long-term disability plan

WCB administers a self-insured non-contributory long-term disability (LTD) income continuance plan for its employees. The LTD liability represents the present value of all future obligations arising from disability claims incurred up to and including the reporting date.

EMPLOYEE BENEFIT PLAN ASSUMPTIONS

The table below presents key assumptions applicable to WCB's employee future benefit plans.

	2020					2019				
	PSPP	**MEPP**	**SERP**	**Post Retirement**	**LTD**	PSPP	MEPP	SERP	Post Retirement	LTD
Date of most recent actuarial valuation	12/31/2020	12/31/2020	12/31/2020	12/31/2020	12/31/2020	12/31/2019	12/31/2019	12/31/2019	12/31/2019	12/31/2019
Economic assumptions										
Discount rate (nominal) for benefit obligation	2.6%	2.6%	2.7%	2.4%	2.3%	3.1%	3.1%	3.1%	3.1%	3.0%
Alberta inflation rate (long-term)	2.0%	2.0%	2.0%	n/a	n/a	2.0%	2.0%	2.0%	n/a	n/a
Salary escalation rate [1]	0.0% until 3/31/21; 3.0% thereafter	2.8%	0.0%	n/a	0.0% for 5 years; 2.0% thereafter	0.0% for 1 yr starting 4/1/19; 3.2% thereafter	2.8%	0.0%	n/a	2.0%
Multi-employer plan funding assumptions										
WCB share of plan contributory payroll	4.6%	1.2%				4.4%	1.1%			
Current service cost rate on contributory payroll	14.2%	21.7%				18.2%	24.6%			
WCB's contributions for the current period (*$ thousands*)	$ 14,866	$ 1,027				$ 14,667	$ 1,266			
WCB's expected contributions for the following period (*$ thousands*)	$ 15,201	$ 1,055				$ 14,667	$ 1,128			

[1] *The salary escalation rate assumptions for the PSPP and the MEPP (both multi-employer plans) are not specific to WCB but rather to all participating employers in aggregate.*

DEFINED BENEFIT PLAN LIABILITIES

($ thousands)	Pension Liabilities [1]	Other Retirement Liabilities [2]	LTD	2020	2019
Change in defined benefit obligation					
Defined benefit obligation, beginning of year	$ 487,168	$ 15,551	$ 21,965	$ 524,684	$ 457,188
Current service cost [3]	19,694	839	1,889	22,422	22,546
Interest expense [4]	14,880	483	618	15,981	17,038
Remeasurement (gains) losses [5]	50,105	493	(365)	50,233	46,075
Benefit payments	(15,222)	(337)	(2,972)	(18,531)	(18,163)
Defined benefit obligation, end of year	$ 556,625	$ 17,029	$ 21,135	$ 594,789	$ 524,684
Change in fair value of plan assets					
Fair value of plan assets, beginning of year	$ 370,127	$ -	$ -	$ 370,127	$ 330,364
Employer contributions	15,893	337	2,972	19,202	19,323
Interest income [4]	11,497	-	-	11,497	12,587
Remeasurement gains (losses) [5]	12,610	-	-	12,610	26,016
Benefit payments	(15,222)	(337)	(2,972)	(18,531)	(18,163)
Fair value of plan assets, end of year	$ 394,905	$ -	$ -	$ 394,905	$ 370,127
Net plan liability					
Defined benefit obligation	$ 556,625	$ 17,029	$ 21,135	$ 594,789	$ 524,684
Fair value of plan assets	394,905	-	-	394,905	370,127
	$ 161,720	$ 17,029	$ 21,135	$ 199,884	$ 154,557

[1] *Pension liabilities include WCB's proportionate share of the PSPP and MEPP net unfunded liabilities. The PSPP makes up the majority of this unfunded obligation.*

[2] *Other retirement liabilities include SERP and the post-retirement benefit plan.*

[3] *Current service costs are presented within corporate administration and claim benefit expense in the consolidated statement of comprehensive income.*

[4] *Interest expense is presented net of interest income in the consolidated statement of comprehensive income.*

[5] *Remeasurement gains and losses on plan obligations due to discount rate changes and experience are presented net of gains and losses on plan assets in the consolidated statement of comprehensive income.*

RISKS ARISING FROM DEFINED BENEFIT PLANS

Economic risks

Defined benefit plans are directly exposed to economic risks from plan assets invested in capital markets and indirectly with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets. Benefit obligations are exposed to uncertainty of future economic conditions, primarily inflation risk due to the extremely long tails of post-employment benefits and health care escalation due to increasingly higher costs of treatment and prescription drugs.

Demographic risks

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to such factors as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates, etc.

Multi-employer plan funding risk

In addition to economic and demographic risk factors, WCB is exposed to funding risk in the multi-employer plans arising from:

- Legislative changes affecting eligibility for and amount of pension and related benefits; and
- Performance of plan assets affected by investment policies set by the pension boards or changes in the assumptions used to value liabilities.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments and mandatory funding requirements.

Sensitivity analysis

The following table shows the effect of a 25 basis point change in the assumed discount rate, inflation rate and wage inflation rate on WCB's proportionate share of the accrued benefit obligations of PSPP and MEPP. The impacts of the assumption changes on WCB's other employee benefit plans, individually and in aggregate, are immaterial.

($ thousands)	**2020**		2019	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Discount rate based on market yields on high-quality corporate bonds	$ (23,263)	$ 23,263	$ (16,714)	$ 16,714
General inflation rate	$ 9,281	$ (9,281)	$ 8,911	$ (8,911)
Wage inflation rate	$ 4,159	$ (4,159)	$ 2,864	$ (2,864)

13. CLAIM BENEFIT LIABILITIES

ACCOUNTING POLICY

The claim benefit liability represents the actuarial present value of all expected future benefit payments for claims and for workplace exposures that have occurred before the valuation date that may result in recognized occupational disease claims after the valuation date. The liability includes a provision for future costs of managing claims but does not include claims and payments that are on a self-insured basis. Valuation of claim benefit liabilities complies with Standards of Practice issued by the Actuarial Standards Board of the Canadian Institute of Actuaries.

Gains and losses resulting from the valuation of the liability arise from differences between actual claims experience and that expected based on the previous valuation, changes to actuarial methods and assumptions as well as changes in legislation, policies and administrative practices. Such gains and losses are recognized in income in the period that they occur.

ACTUARIAL METHODOLOGY AND BASIS OF VALUATION

Claim benefit liabilities are independently valued annually at year end by WCB's external actuary. Claim benefit liabilities include a provision for all covered benefits and for the future expenses of administering those benefits, including funding obligations to the Appeals Commission, the Medical Panel Office and the Fair Practices Office.

Estimated future expenditures are expressed in constant dollars increased to consider expected future escalation, and then discounted at the assumed long-term rate of return on investments.

The valuation is based on WCB legislation, policies and administrative practices in effect as at the valuation date. Estimation of the liability requires the use of actuarial methods and assumptions that are periodically assessed and adjusted based on frequent monitoring of actual claim experience, the economy and other relevant factors throughout the year.

Since the claim benefit liabilities are of a long-term nature, the actuarial assumptions and methods used to calculate the reported claim benefit liabilities are based on considerations of future expenditures over the long term. As the determination of these liabilities requires assumptions about economic and other events that may occur many years in the future, but which are based on best information as at the valuation date, a significant degree of professional judgement must be exercised in developing these assumptions. Accordingly, changes in conditions within one year of the consolidated financial statement date could require material change in recognized amounts in a subsequent period or periods.

See Note 15 *Claim Benefit Risks* for further discussion of measurement uncertainty with respect to valuation of WCB's claim benefit liabilities.

ACTUARIAL ASSUMPTIONS

The most significant economic assumptions for the determination of claim benefit liabilities are the assumed rate of return on invested assets used for discounting expected future benefit payments and the escalation rates for benefit costs into the future. All actuarial assumptions are determined on a 'best estimate' basis, except for the real rate of return on investments (i.e., the difference between the expected long-term investment return and the expected long-term general inflation rate). The expected long-term investment return assumption is targeted at about 70% probability level, which provides a margin for adverse deviation in the liability.

Long-term economic assumptions for general inflation and wage escalation are developed by using historical statistics and other economic indicators. The cost-of-living adjustment assumption considers WCB's policy and has been changed from the previous 2.02% to 1.53% following recent legislation changes. Health care escalation is developed from analysis of WCB health care cost experience, taking into consideration the results of external studies. This escalation rate represents general inflation plus excess inflation of 2.0%, covering both the increases in the costs per treatment and in utilization.

The table below presents key long-term economic assumptions used to determine the claim benefit liabilities:

	2020	2019
Nominal rate of return	4.55%	4.55%
General inflation rate	2.00%	2.00%
Real rate of return	2.50%	2.50%
Cost-of-living adjustment	1.53%	2.02%
Wage escalation	3.00%	3.00%
Health care escalation	4.00%	4.00%

In 2020, WCB accepted 4,800 COVID-19 claims. The vast majority of these claims received short-term wage loss benefits and had recovered before the year ended; therefore, the impact of COVID-19 claims on the claim benefit liabilities is relatively minor. However, claim experience for some benefit categories was atypical. Payment durations for short-term wage loss and re-employment service benefits were longer due to the COVID-19 related restrictions. Under the assumption that this claim experience is not representative of typical workers' compensation payments over the long term, adjustments were made to the valuation to ensure that actuarial assumptions and projections remain adequate and appropriate.

RECONCILIATION OF CLAIM BENEFIT LIABILITIES

The table below is a reconciliation of the movement in claim benefit liabilities, highlighting the significant changes for each major benefit category.

($ thousands)	Short-term Disability	Long-term Disability	Survivor Benefits	Health Care	Re-employment	Claims Management	**2020**	2019
Claim benefit liabilities, beginning of year	$ 640,900	$ 4,561,500	$ 792,800	$ 3,069,800	$ 247,200	$ 657,700	$ 9,969,900	$ 9,044,800
Claim costs recognized during the year								
Provision for future costs of current year injuries and exposures	168,700	316,200	42,000	240,400	78,200	89,900	935,400	932,900
Claim benefits processed in the year	109,656	2,928	5,733	101,222	2,974	50,875	273,388	313,544
Total claim costs recognized during the year	278,356	319,128	47,733	341,622	81,174	140,775	1,208,788	1,246,444
Claim payments processed during the year								
Payments for current year injuries	(109,656)	(2,928)	(5,733)	(101,222)	(2,974)	(50,875)	(273,388)	(313,544)
Payments for prior years' injuries	(214,762)	(262,551)	(45,638)	(242,715)	(138,273)	(90,189)	(994,128)	(884,798)
	(324,418)	(265,479)	(51,371)	(343,937)	(141,247)	(141,064)	(1,267,516)	(1,198,342)
Interest expense on the liability	25,500	201,700	35,100	134,500	9,800	27,900	434,500	394,800
Commutation of Deposit Account	-	-	-	-	-	-	-	2,838
Remeasurement of the liability								
Changes in valuation methods and assumptions								
Mortality	-	-	-	-	-	-	-	(145,800)
Home maintenance and housekeeping allowances	-	-	-	-	-	-	-	479,300
Claim administration	-	-	-	-	-	-	-	14,100
Latent occupational disease claims	25,500	64,500	6,300	73,300	2,500	2,600	174,700	-
Assumptions related to incurred hearing loss claims	-	-	-	3,500	-	-	3,500	-
Changes to Act, Regulation, policies and administrative practices								
COLA indexation	(1,700)	(213,100)	(44,300)	-	-	-	(259,100)	-
Changes in claims experience								
Inflation and wage growth different than expected	(1,300)	(17,000)	(3,900)	(15,700)	300	-	(37,600)	(45,300)
Economic loss payments different than expected	-	(40,900)	-	-	-	-	(40,900)	(12,400)
Short-term wage loss and re-employment benefits different than expected	80,300	-	-	-	90,100	-	170,400	94,600
Personal care, home maintenance and housekeeping allowances different than expected	-	23,300	-	33,100	-	-	56,400	85,600
Other experience (gains) losses	(3,438)	(7,049)	(7,362)	(8,085)	573	8,989	(16,372)	9,260
	99,362	(190,249)	(49,262)	86,115	93,473	11,589	51,028	479,360
Claim benefit liabilities, end of year	$ 719,700	$ 4,626,600	$ 775,000	$ 3,288,100	$ 290,400	$ 696,900	$10,396,700	$ 9,969,900

See Note 14 *Claim Benefit Expense* for details of the amounts recognized in income for the reporting period.

CLAIMS DEVELOPMENT

The table that follows presents the development of the estimated ultimate cost of claims and claim payments for accident years 2011–2020. The top part of the table illustrates how the estimate of total claim benefits for each accident year has changed with more experience over succeeding year-ends. The shaded claims triangle shows the estimated cost of claims for an accident year in the year of the accident, one year after the year of the accident, two years after the year of the accident and so on and compares the total estimated cost to the actual cumulative payments over the development period. Due to the extremely long duration of many WCB benefit types, significant amounts may be paid out in the distant future beyond the valuation date. The bottom part of the table reconciles the total outstanding benefits amount to the discounted amount reported in the consolidated statement of financial position.

	Accident Year											
($ millions)	Prior Years	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	**Total**
Estimate of cumulative claim benefits												
At end of accident year		1,444.3	1,320.8	1,423.6	1,438.2	1,421.3	1,323.9	1,471.6	1,714.5	1,952.8	*1,842.3*	
One year later		1,250.4	1,305.7	1,383.6	1,414.3	1,353.1	1,427.1	1,644.2	1,819.2	*1,924.4*		
Two years later		1,220.9	1,256.9	1,394.3	1,407.1	1,516.5	1,550.3	1,781.5	*1,822.9*			
Three years later		1,175.3	1,258.0	1,343.6	1,538.0	1,648.0	1,632.2	*1,762.9*				
Four years later		1,160.0	1,212.5	1,444.5	1,663.0	1,719.7	*1,590.4*					
Five years later		1,119.5	1,270.1	1,530.2	1,709.5	*1,660.2*						
Six years later		1,156.9	1,326.7	1,565.0	*1,646.8*							
Seven years later		1,146.7	1,425.4	*1,528.1*								
Eight years later		1,166.2	*1,388.2*									
Nine years later		*1,137.4*										
Current estimate of cumulative claim benefits		1,137.4	1,388.2	1,528.1	1,646.8	1,660.2	1,590.4	1,762.9	1,822.9	1,924.4	1,842.3	
Cumulative payments		(536.8)	(547.4)	(602.2)	(614.4)	(579.5)	(531.5)	(583.4)	(582.1)	(494.0)	(222.5)	
Outstanding benefits												
Undiscounted	$7,335.1	$ 600.6	$ 840.8	$ 925.9	$1,032.4	$1,080.7	$1,058.9	$1,179.5	$1,240.8	$1,430.4	$1,619.8	$ 18,344.9
Effect of discounting	(3,689.5)	(332.7)	(486.8)	(519.3)	(577.9)	(600.4)	(591.3)	(646.2)	(666.4)	(743.3)	(763.5)	(9,617.3)
	3,645.6	267.9	354.0	406.6	454.5	480.3	467.6	533.3	574.4	687.1	856.3	8,727.6
Claims management												
Undiscounted												1,396.1
Effect of discounting												(699.2)
												696.9
Latent occupational diseases												
Undiscounted												2,659.3
Effect of discounting												(1,687.1)
												972.2
Total claim benefits												
Undiscounted												22,400.3
Effect of discounting												(12,003.6)
Claim benefit liabilities												$ 10,396.7

LIQUIDITY OF CLAIM BENEFIT LIABILITIES

The following table presents the expected timing of future payments of the claim benefit liability as at December 31. As these payments extend well out into the future, any such estimates involve considerable uncertainty.

($ millions)	2020		2019	
Expected timing of future payments (undiscounted)				
Up to 1 year	$ 921	4%	$ 848	4%
Over 1 year and up to 5 years	2,540	11%	2,391	11%
Over 5 years and up to 10 years	2,743	12%	2,614	12%
Over 10 years and up to 15 years	2,592	12%	2,476	11%
Over 15 years	13,604	61%	13,515	62%
Total	$ 22,400	100%	$ 21,844	100%

14. CLAIM BENEFIT EXPENSE

The table below presents details of claim benefit expense reported in the consolidated statement of comprehensive income.

($ thousands)	2020			2019
	Current Year Injuries	Prior Years' Injuries	Total	Total
Claims expense				
Provision for future costs of current year injuries and exposures [1]	$ 935,400	$ -	$ 935,400	$ 932,900
Claim payments processed in the year				
Short-term disability	109,656	214,762	324,418	282,849
Long-term disability	2,928	262,551	265,479	256,925
Survivor benefits	5,733	45,638	51,371	52,574
Health care	101,222	242,715	343,937	370,175
Re-employment	2,974	138,273	141,247	98,736
	222,513	903,939	1,126,452	1,061,259
Claim payments related to prior years [2]	-	(994,128)	(994,128)	(884,798)
	222,513	(90,189)	132,324	176,461
	$ 1,157,913	$ (90,189)	$ 1,067,724	$ 1,109,361
Claims management [3]				
Claims-related administration	48,608	75,393	124,001	117,983
Appeals Commission	21	10,363	10,384	11,610
Medical Panel Office	2	953	955	1,059
Fair Practices Office	2,244	3,480	5,724	6,431
	$ 50,875	$ 90,189	$ 141,064	$ 137,083
	$ 1,208,788	$ -	$ 1,208,788	$ 1,246,444

[1] *Provision for future costs of current year injuries represents the present value of all future obligations for benefit payments arising from current year injuries and occupational disease exposures.*

[2] *Although claim payments relating to prior years injuries are processed in the reporting period, they are not expensed in the current year but are charged to the liabilities established for prior accident years.*

[3] *Claims management represents WCB's internal functional costs related to claims processing as well as funding of the external decision review bodies. Claims management expenses are included in claim benefit liabilities for valuation purposes, see Note 17* Administration Expense, *for Claims-related administration.*

15. CLAIM BENEFIT RISKS

Because there is no statutory limit on the benefit amount payable or the duration of the risk exposure related to work-related injuries, WCB bears risk with respect to its future claim costs, which could have material implications for liability estimation. In determining WCB's claim benefit liabilities, a primary risk is that the actual benefit payments may exceed the amount estimated in determining the liabilities. This may occur due to changes in claim reporting patterns, frequency and/or size of claim payments or duration of claims. Compensable injuries and benefits payable may also change due to legislation or policy changes. With potentially long claim run-off periods, inflation is also a factor because future costs could escalate at a faster rate than expected.

The uncertainties associated with WCB claim benefit liabilities are complex and subject to a number of variables that complicate quantitative sensitivity analysis. The most significant assumption in the determination of the claim benefit liabilities is the real rate of return. A reduction in the assumed real rate of return would increase the actuarial present value of the claim benefit liabilities. Wage inflation affects the liabilities through benefits such as re-employment and personal care and housekeeping allowances. An increase in assumed wage growth would increase the respective liabilities. Health care benefits represent approximately 31% of the claim benefit liabilities. An increase in the assumed health care escalation rate would result in an increase in the liability for health care.

EFFECT OF ASSUMPTION CHANGES ON CLAIM BENEFIT LIABILITIES

The table below shows the sensitivity of the claim benefit liabilities to an immediate 0.25% increase or decrease in the assumed rates:

($ thousands)	**2020**		2019	
+/- % change on assumed rates	**+0.25%**	**-0.25%**	+0.25%	-0.25%
Real rate of return	$ (332,100)	$ 352,900	$ (325,100)	$ 345,700
Wage escalation rate	$ 133,800	$ (126,800)	$ 125,700	$ (118,900)
Health care escalation rate	$ 60,700	$ (57,300)	$ 60,100	$ (56,600)

16. PREMIUM REVENUE

ACCOUNTING POLICY

Premiums are assessed and due when employers report their assessable earnings for the current year. For employers who have not reported, premiums are estimated and included in the amount receivable. Premium revenue includes estimates for Partnerships in Injury Reduction (PIR) rebates and other items.

Premium revenue is fully earned and recognized over the annual coverage period. Any difference between actual and estimated premiums and rebates is adjusted in the following year.

An allowance for expected credit losses is recorded against trade and other receivables based on lifetime expected credit losses, applying an expected cash flow approach, recognizing the expected credit risk impairment at the initial date of receivable recognition. Changes in the allowance for expected credit losses are recorded in premium revenue. When there is no reasonable expectation of future cash flows of the receivables, the amounts are written off.

($ thousands)	**2020**	2019
Premiums		
Assessed premium revenue for current year	$ 1,147,870	$ 1,193,544
Other premium-related revenue	(2,563)	6,772
	1,145,307	1,200,316
Deduct: Partnerships in Injury Reduction rebates	71,158	76,091
	$ 1,074,149	$ 1,124,225

Assessed premium revenue includes an accrual of $103,141 as a reduction to receivables (2019 – $33,556 payable) for amounts related to yet to be reported assessable earnings adjustments for the current period. The accrual has been determined using an internally developed statistical model to estimate the amount of unreported adjustments based on actual reported assessable earnings returns processed and historical patterns of processed to unprocessed returns at a specified point in time.

PIR is a voluntary program that pays rebates to registered employers that have met the eligibility requirements in achieving certain workplace safety targets as specified under the program. Earned rebates are payable in the following year. The estimated rebate amount is based on several factors, including premiums paid, year-over-year improvement in claims experience and safety performance relative to industry benchmarks, among others. See Note 20(e) *Safety rebates* for supplemental information on the Partnerships in Injury Reduction rebates.

IMPACT OF COVID-19 ON PREMIUMS

In March 2020, the Government of Alberta announced financial supports for private sector employers in response to the economic impact of COVID-19 restrictions. Specific to WCB, liquidity for employers was provided by deferring payment of outstanding 2020 WCB premiums to March 2021, and returning payments already made. In addition, small- and medium-sized private sector employers with $10 million or less in assessable earnings for 2020 are eligible for a waiver of 50% of their 2020 premiums, with the government reimbursing the WCB for the waiver in 2021.

CREDIT RISK

Premiums receivable from employers have credit risk, which vary based on employer-specific factors, industry conditions, and macroeconomic or other factors. Their credit risk is largely subject to the economic circumstances they face and general economic conditions of the province.

Credit risk associated with premium receivables related to employers is mitigated through risk management policies and procedures, which include close monitoring of premium payment status and follow-up measures with the employer. Premiums receivable are written off when there is no reasonable expectation of recovery. However, WCB continues to pursue enforcement activity to collect the amounts due.

WCB undertook a comprehensive analysis of expected credit losses on premium receivables for 2020 due to the impact of COVID-19 and the deferral or premiums discussed above. In applying a matrix approach, WCB incorporates relevant forward-looking indicators of credit deterioration, including macroeconomic data and views on business conditions, as well as WCB-specific inputs and the government reimbursement discussed above. The resulting allowance for expected credit losses as at December 31, 2020 is $10.2 million (2019 - $4.0 million).

17. ADMINISTRATION EXPENSE

WCB's primary administrative functions include:

- **Claims-related administration** – responsible for adjudicating claims, processing benefit payments and the provision of return-to-work services to injured workers.
- **Corporate administration** – provides general management and administrative support.

The table below presents administration expenses broken down by nature of expense and by function:

($ thousands)	Corporate	Claims-related	2020	2019
Administration expenses				
Salaries and employee benefits	$ 56,781	$ 137,877	$ 194,658	$ 191,982
Technology	10,026	6,920	16,946	15,664
Office	2,387	724	3,111	5,183
Occupancy	695	6,334	7,029	8,273
Professional fees	2,056	2,565	4,621	4,789
Travel	212	173	385	1,111
Other	820	373	1,193	1,847
	72,977	154,966	227,943	228,849
Depreciation and amortization	11,014	14,030	25,044	20,991
	83,991	168,996	252,987	249,840
Less:				
Cost recoveries	70	11,611	11,681	10,777
Reclassifications to:				
Claims expense – rehabilitation services	-	33,384	33,384	34,370
Investment management expense [1]	3,122	-	3,122	3,302
	3,192	44,995	48,187	48,449
	$ 80,799	$ 124,001	$ 204,800	$ 201,391

[1] *Investment management expense represents internal expenses, see Note 6* Investment Income and Expense.

18. RELATED PARTY TRANSACTIONS

GOVERNMENT OF ALBERTA AND RELATED ENTITIES

WCB has transactions with various Alberta Crown corporations, departments, agencies, boards, educational institutions and commissions in the ordinary course of operations. Such transactions include premiums from the organizations and certain funding obligations relating to Occupational Health and Safety, the Appeals Commission, the Medical Panel Office and the Fair Practices Office that are in accordance with the applicable legislation and/or regulations. WCB is related to these entities by virtue of common influence by the Government of Alberta. WCB is considered a government-related entity and as such, is not required to disclose these transactions under IAS 24 *Related Party Disclosures.*

AIMCO TRANSACTIONS

In compliance with Bill 22, the transfers of WCB investments to AIMCo, an Alberta Crown corporation, constitute related party transactions. During the reporting period, $3.5 billion in fixed income assets were transferred to AIMCo. In addition to the remaining portfolio assets to be transferred in 2021, future transactions will include management fees and other expenses charged by AIMCo on a cost recovery basis, which may not be consistent with usual commercial terms for similar services.

Details of the transition plan may be found in Investment management transition in Note 5 *Investments*.

KEY MANAGEMENT COMPENSATION

Key management personnel of WCB, comprising the Board of Directors and the executive and their close family members, are also related parties in accordance with IAS 24. As at the reporting date, there were no business relationships, outstanding amounts or transactions other than compensation, between WCB and its key management personnel.

The tables below present total compensation of the board members and executive of WCB.

($ thousands)	2020				
	Base Salary [1]	Other Cash Benefits [2]	Non-Cash Benefits [3]	SERP [4]	Total
Chair, Board of Directors [5]	$ -	$ 32	$ 4	$ -	$ 36
Board Members [5]	-	73	9	-	82
President and Chief Executive Officer	331	12	36	80	459
Senior Vice President, Operations & Innovation	367	6	35	95	503
Chief Financial Officer	347	19	37	87	490
Vice President, Employee and Corporate Services	285	6	43	62	396
Vice President, Millard Health and Special Care Services	211	6	34	26	277
Secretary and General Counsel	211	10	39	27	287
Chief Technology Officer	260	11	36	13	320

	2019				
Chair, Board of Directors	$ -	$ 59	$ 4	$ -	$ 63
Board Members	-	140	12	-	152
President and Chief Executive Officer [6]	262	13	34	59	368
President and Chief Executive Officer [7]	99	1	15	29	144
Senior Vice President, Operations & Innovation	367	6	40	79	492
Chief Financial Officer	347	13	43	74	477
Vice President, Employee and Corporate Services	285	6	49	57	397
Vice President, Millard Health and Special Care Services	211	6	41	22	280
Secretary and General Counsel	211	11	45	23	290
Chief Technology Officer [8]	85	2	15	-	102

[1] *Base salary is pensionable base pay.*

[2] *Other cash benefits for Board Members comprise honoraria pay for meetings attended, while other cash benefits for other key management includes car allowances, vacation payouts and long service awards.*

[3] *Non-cash benefits include employer's share of all employee benefits and payments made to, or on behalf of, employees including statutory contributions, pension plans, extended health care benefits, group life insurance, and professional memberships.*

[4] *SERP represents employer's current service cost for benefits accrued under a supplemental executive retirement plan. See Note 12* Employee Benefits *for details of the plan, and the following table for the costs and obligations related to each named key management position.*

[5] *The Chair of the Board of Directors and the Board Members are part-time positions.*

[6] *Incumbent took office on March 18, 2019.*

[7] *Incumbent retired in 2019.*

[8] *Position effective September 4, 2019.*

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

($ thousands)	**2020**				2019	
	Current Service Cost [1]	Other Costs [2]	**Net Cost**	**Accrued Obligation**	Net Cost	Accrued Obligation
President and Chief Executive Officer [3]	$ 80	$ 11	$ 91	$ 155	$ 64	$ 64
President and Chief Executive Officer [4]	-	-	-	-	209	2,566
Senior Vice President, Operations & Innovation	95	170	265	1,810	357	1,545
Chief Financial Officer	87	95	182	1,409	272	1,227
Vice President, Employee and Corporate Services	62	13	75	1,074	141	999
Vice President, Millard Health and Special Care Services	26	6	32	76	29	44
Secretary and General Counsel	27	2	29	124	37	95
Chief Technology Officer	13	2	15	19	4	4

[1] *Current service cost represents the actuarial present value of future benefit obligations arising from employee service in the current period.*

[2] *Other costs include interest on the liability and actuarial gains and losses arising from assumption changes and/or experience, less any benefit payments.*

[3] *Incumbent took office on March 18, 2019.*

[4] *Incumbent retired in 2019. The outstanding balance of the accrued obligation is included in employee benefit liabilities.*

19. CONTINGENCIES AND INDEMNIFICATION

LEGAL PROCEEDINGS

WCB is party to various claims and lawsuits, related to the normal course of business, that are currently being contested. Based on the total amount of all such actions, WCB has concluded that the outcomes will not have a material effect on the results of operations or financial position.

INDEMNIFICATION AGREEMENTS

In the normal course of operations, WCB enters into contractual agreements that contain standard contract terms that indemnify certain parties against loss. The terms of these indemnification clauses will vary based upon the contract, and/or the occurrence of contingent or future events, the nature of which prevents WCB from making a reasonable estimate of the potential amount that may be payable to those contractual parties. Such indemnifications are not significant, nor has WCB made any payments or accrued any amounts in the consolidated financial statements in respect of these indemnifications.

20. SUPPLEMENTAL INFORMATION

(a) Cash and cash equivalents

($ thousands)	2020	2019
Cash equivalents	$ 384,195	$ 254,646
Cash in transit and in banks	95,098	36,276
	$ 479,293	$ 290,922

Cash equivalents are invested in a portfolio of high-quality, short- to mid-term, highly liquid fixed-income securities that generated an average annual return of 1.0% (2019 – 1.9%).

(b) Trade and other receivables

($ thousands)	2020	2019
Premium receivable	$ 544,055	$ 34,147
Government of Alberta receivable – Note 16	313,778	-
Reclassified to employer liabilities – Note 20(d)	8,422	28,394
Employer accounts receivable	866,255	62,541
Other	15,459	17,210
	$ 881,714	$ 79,751

Included in the employer accounts receivable total above is an allowance for expected credit losses of $10,200 (2019 – $4,000). Due to premium deferral, all 2020 receivables are expected to be collected by mid-2021. See Note 16 *Premium Revenue* for discussion of the changes in the allowance.

(c) Trade and other liabilities

($ thousands)	Trade	Other	2020	2019
Trade payables	$ 36,144	$ -	$ 36,144	$ 36,387
Lease obligations – Note 10	-	10,857	10,857	11,096
Other liabilities	-	8,030	8,030	12,427
	$ 36,144	$ 18,887	$ 55,031	$ 59,910
Current portion	$ 36,144	$ 2,516	$ 38,660	$ 43,715
Non-current portion	-	16,371	16,371	16,195
	$ 36,144	$ 18,887	$ 55,031	$ 59,910

(d) Employer liabilities

($ thousands)	2020	2019
Accrued premiums payable	$ -	$ 33,556
Reclassified from premium receivable – Note 20(b)	8,422	28,394
	$ 8,422	$ 61,950

Included in employer liabilities is the reclassification from trade receivables of all outstanding employer accounts with credit balances.

(e) Safety rebates

($ thousands)	2020	2019
Safety rebates payable, beginning of year	$ 79,112	$ 71,190
Payment of prior years' rebates	(73,212)	(66,514)
	5,900	4,676
Adjustment of prior years' accruals	(2,215)	(1,655)
Outstanding balance from prior years	3,685	3,021
Rebates for the year – Note 16	71,158	76,091
Safety rebates payable, end of year	$ 74,843	$ 79,112

Safety rebates represent amounts recognized under the PIR program. See Note 16 *Premium Revenue* for further details of the PIR program.

(f) Injury reduction

($ thousands)	2020	2019
Occupational Health and Safety	$ 45,981	$ 48,258
Industry safety associations	22,633	24,857
	$ 68,614	$ 73,115

Injury reduction is composed of statutory funding of Occupational Health and Safety and voluntary premium levies to fund industry-sponsored safety associations.

21. COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization characterized the COVID-19 virus as a global pandemic. WCB continues to monitor and actively manage the developing impacts from COVID-19, including but not limited to, premium revenues, claim benefit expenses and volatility of the investment portfolio. Liquidity continues to be managed to meet regular operating cash requirements. The impact of the pandemic, including from premium deferral measures by the Government of Alberta and on critical judgements and accounting estimates, are discussed in the notes to the consolidated financial statements, particularly Note 4 *Funding*, Note 13 *Claims Benefit Liabilities* and Note 16 *Premium Revenue*.

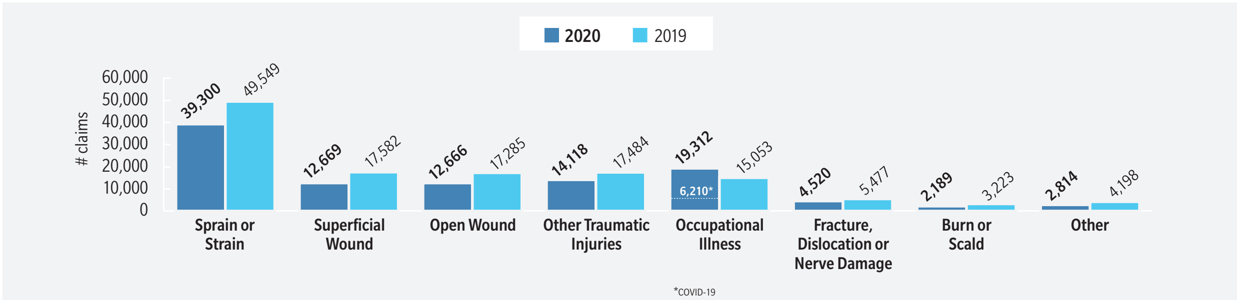
2020 summary of claims administered

	2020		2019	
Active claims as of January 1		37,508		33,490
New lost-time claims	28,960		29,143	
New medical-aid-only claims	78,628		100,708	
Total new claims reported	**107,588**		129,851	
Recurrent claims[1]	12,573		15,005	
		120,161		144,856
Total claims administered		**157,669**		178,346

[1] *Previously inactive claims that required further adjudication or case management. Claims may reopen for a number of reasons, such as payments for medical aid or requests for further compensation benefits.*

NON-ELIGIBLE CLAIMS	2020	2019
Ineligible claims as a percent of total new claims reported	9.4%	9.6%
Reasons for ineligibility		
Injury or illness not arising out of/in course of employment	51.9%	48.0%
Not covered under *Workers' Compensation Act*	20.0%	25.8%
Insufficient information available to process claim	28.1%	26.3%

New claims by nature of injury



New claims by part of body