WorkSafeBC

2020 Annual Report

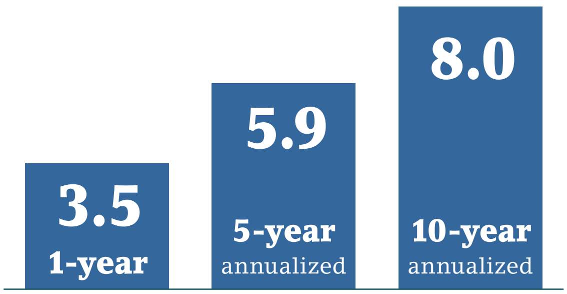
Guiding the way to retirement

worksafe.pensionsbc.ca

Plan highlights

Rates of return (%)

Healthy performance, page 9

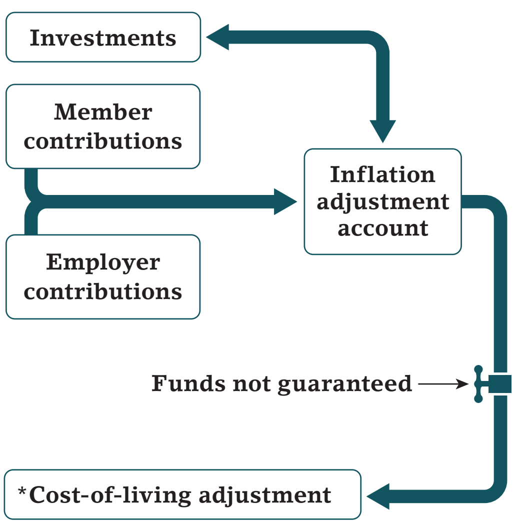


Change in net assets ($ millions)

	$2,223.2	**Net assets, April 1, 2019**
+	82.1	Investment income
+	42.9	Contributions
–	66.8	Benefits payments
–	5.1	Investment and administration costs
	$2,276.3	**Net assets, March 31, 2020**

COLA* in action

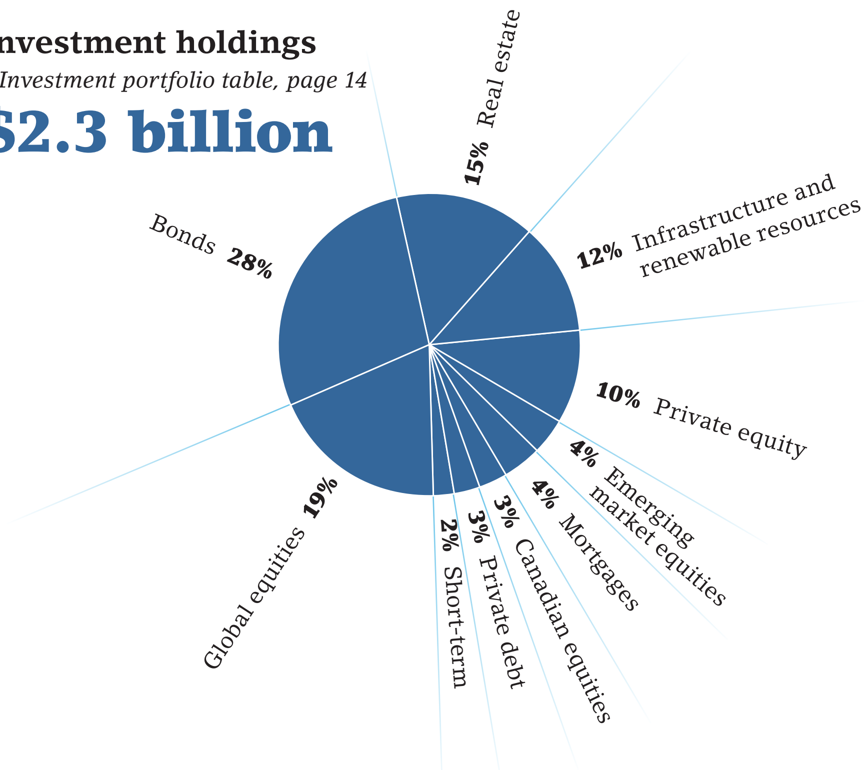
How plan benefits work, page 5



Investment holdings

Investment portfolio table, page 14

$2.3 billion



Membership

Who's in the plan, page 2
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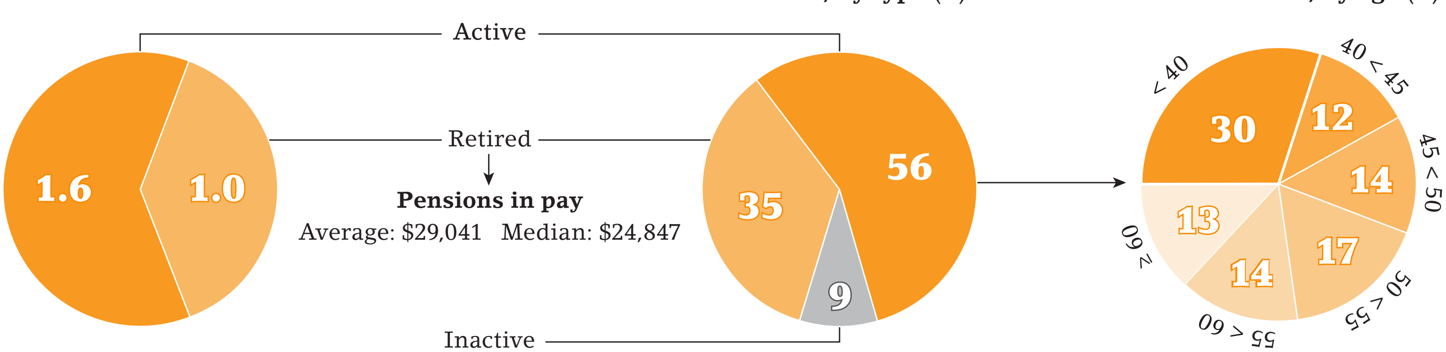
Member ratio **Members, by type** (%) **Active members, by age** (%)



Contents

Taking a long-term view

A message from your Pension Committee

Welcome to the *WorkSafeBC Pension Plan 2020 Annual Report*. As another year unfolds, we look back at a year of challenges and opportunities. We are happy to offer continued assurance about the health of the WorkSafeBC Pension Plan.

The plan is secure

Members can feel secure about their pension. The plan is protected against a market downturn through our long-term approach to investing. Before COVID-19 and the current financial downturn, British Columbia Investment Management Corporation (BCI), the plan's investment manager, anticipated a correction in the rising financial market. Plan investments are broadly diversified, which cushions the overall portfolio against lower returns in any one asset category. Because members' pensions are paid from a large pool of assets, the plan is able to meet its commitments to members now and in the future.

The plan is a valuable benefit

Members can feel confident about planning for their future. The plan takes a long-term approach to investments that will weather short-term market fluctuations. A WorkSafeBC pension is specifically designed to secure a dependable source of income for members' retirement. As it is a defined benefit pension, the amount of a member's pension payment is not dependent on the performance of the financial markets.

Making contributions is easy through automatic deductions. When it comes time to retire, members know what their monthly payments will be, and that also makes budgeting easier. As well, there are tools and services available on the plan website and through My Account that help members stay informed about their pension.

How the plan is governed

The Pension Committee assists the WorkSafeBC Board of Directors by administering the plan in a collaborative, responsible and proactive manner. We have a fiduciary responsibility to act in the best interests of all members. With the support of BCI, we oversee the prudent investment of plan assets and recognize the importance of environmental, social and governance considerations when investing.

As we look over the past year and into the years ahead, we remain committed to preserving plan value, maintaining sustainability and guiding the plan so members can feel secure about their retirement future.

Who's in the plan

Membership

Membership in the WorkSafeBC Pension Plan (plan) is divided into four groups:

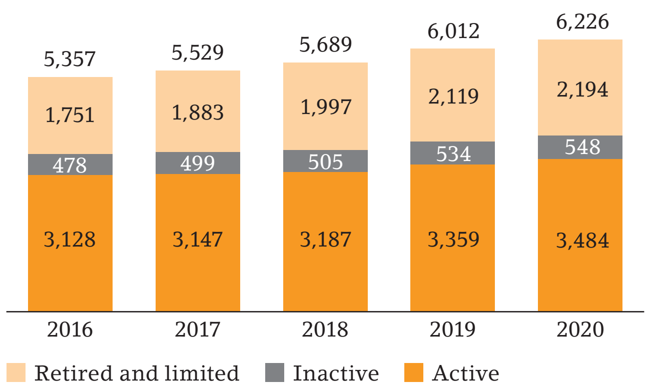
Active Currently contributing to the plan, on an approved leave of absence or receiving benefits from an approved long-term disability plan—there are 3,484 active members in the plan

Inactive Not currently contributing; have ended their employment but left their contributions in the plan—there are 548 inactive members in the plan

Retired Currently receiving a pension; this includes those receiving a survivor's pension—there are 2,194 retired members in the plan

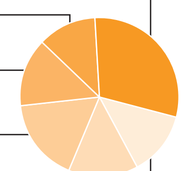
Limited A plan member's former spouse who has the right to a portion of the plan member's pension and applies to become a limited member after a separation or divorce—these members are included in the retired member total if they are receiving a pension

Number of members
as at March 31



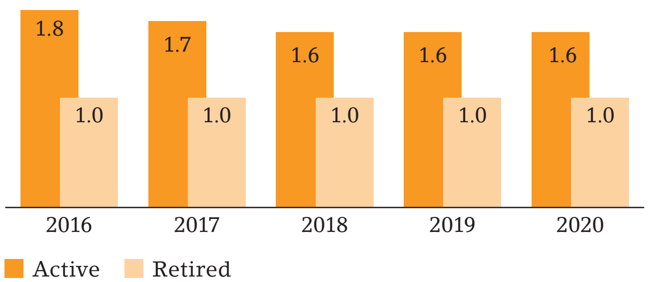
Active members, by age
as at March 31, 2020

< 40 years	1,040	30%
40 < 45 years	425	12%
45 < 50 years	498	14%
50 < 55 years	578	17%
55 < 60 years	503	14%
≥ 60 years	440	13%



Knowing the number of plan members approaching retirement helps the Pension Committee understand how retired membership numbers might change in coming years. The ratio of active to retired members has declined over the past five years. This trend is expected to continue as more baby boomers reach retirement age.

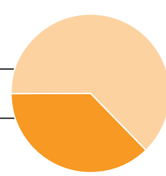
Ratio of active to retired members
as at March 31



The gender makeup of active members is also important as the average female has a longer life expectancy than the average male and so will likely draw their pension for longer.

Active members, by gender
as at March 31, 2020

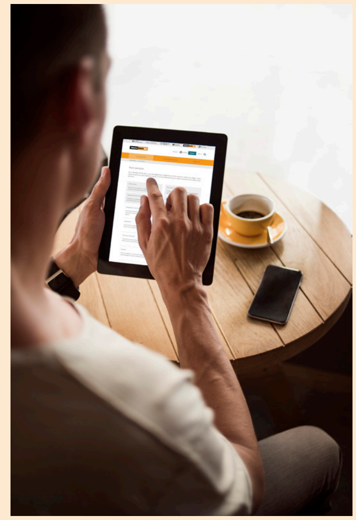
Female	2,186	63%
Male	1,298	37%



Enhancing members' online experience

Members come to the plan website and My Account to connect with their pension, learn new information and accomplish tasks. Digital initiatives over the past year include:

- **Digital opt-in:** members can opt in to receiving communications through digital channels—doing so allows members to receive information more quickly and is more environmentally friendly
- **Improved security:** password security has been enhanced to better protect online interactions and member information
- **Online member education:** the plan launched *Making the Most of Your Pension* and *Approaching Retirement,* new online learning to help members find answers to their pension questions
- **Pension payment options:** retired members can sign up for direct deposit of pension payments; international pension payments can now be sent electronically
- **Purchase of service:** members can use online banking to pay for purchases of past-service benefits (e.g., maternity leave)



OPTING IN TO PAPER-FREE COMMUNICATIONS

Members who are already registered for My Account can simply sign in, confirm their contact information and select "yes" to go paper-free. They can also change their preferences on the *Account settings* page at any time.

Members who have not yet registered for My Account can choose to opt in as part of their registration. Registering is easy and can be completed in five quick steps at **myaccount.pensionsbc.ca.**

How plan benefits work

Plan details

Basic lifetime pension

The basic lifetime pension is based on a formula using a member's years of pensionable service in the plan, the average of their highest five years of pensionable salary and their age at retirement. The basic lifetime pension is paid from the plan's basic account.

The plan is pre-funded, which means enough money is set aside through contributions and investments to pay the lifetime pension now and into the future. Once the member makes their first contribution, they are entitled to a pension at the earliest retirement age.

The plan provides the option of a survivor's benefit. It also provides pensionable and contributory service for members receiving long-term disability benefits; these members will continue to accumulate service as if they were still working and are not required to pay their monthly pension contributions to the plan.

Pensionable service refers to the actual time a member worked while contributing to the plan. For example, members earn one full month of pensionable service when they work full time for a month. If they work half time, they receive half a month of pensionable service.

Cost-of-living adjustments

Cost-of-living adjustments (COLAs) are designed to help maintain the value of retired members' pensions against the rising cost of living.

COLAs are granted only if sufficient money is available in the inflation adjustment account (which is funded by member and employer contributions). If sufficient money is available, a COLA is applied to retired members' pensions on a yearly basis. The amount of the adjustment is based on changes in the Canadian consumer price index.

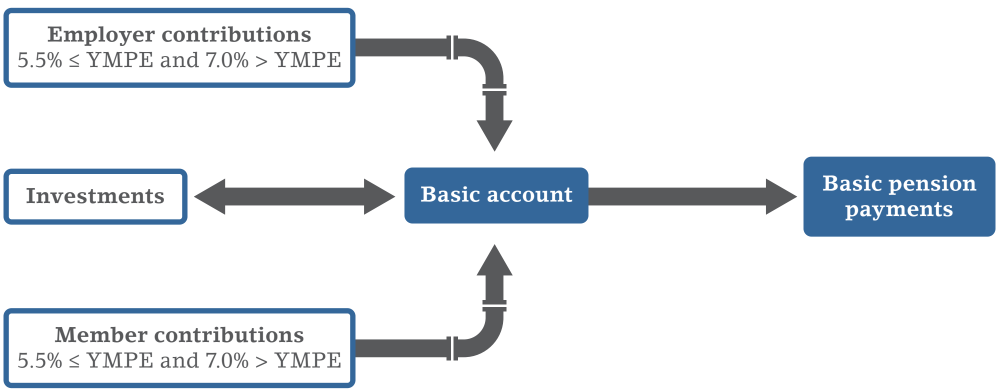
In 2020, retired members received a COLA of 1.9 per cent.

The Pension Committee regularly monitors the plan's ability to continue providing COLAs. While future increases are not guaranteed, once granted, they become part of retired members' basic lifetime pension.

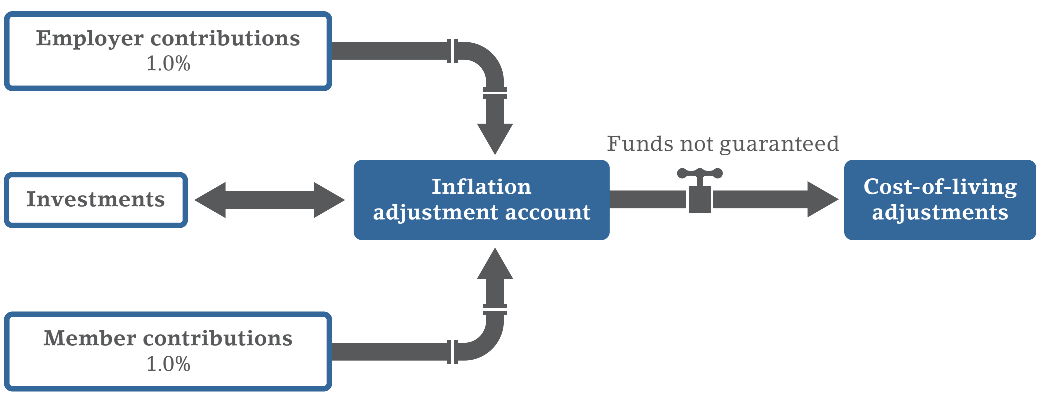
How contributions work

Members contribute to the plan through automatic salary deductions. Both members and WorkSafeBC pay contributions to fund future pensions. When members end employment, retire or reach 35 years of pensionable service, they no longer contribute.

Members and WorkSafeBC each contribute 5.5 per cent of salary up to and including the year's maximum pensionable earnings (YMPE), which was $58,700 in 2020, and 7.0 per cent of salary above that amount. YMPE is set annually by the federal government and determines the maximum salary for which Canada Pension Plan contributions must be made.



These rates include contributions to the basic account (which pays pension benefits) and the inflation adjustment account (which pays non-guaranteed COLAs).



By the numbers

Benefits and contributions

As at March 31, 2020, the average pension in pay is $29,041, and the median is $24,847.

Pensions
year ended March 31

	New pensions	Pension terminations	Pensions at end of year	($ millions) Basic pensions paid	Inflation supplements paid	Total
2020	**122**	**47**	**2,194**	**$53.7**	**$8.1**	**$61.7**
2019	150	28	2,119	50.0	7.1	57.1
2018	141	27	1,997	46.4	6.4	52.8
2017	155	23	1,883	42.3	6.0	48.3
2016	130	27	1,751	38.6	5.7	44.3

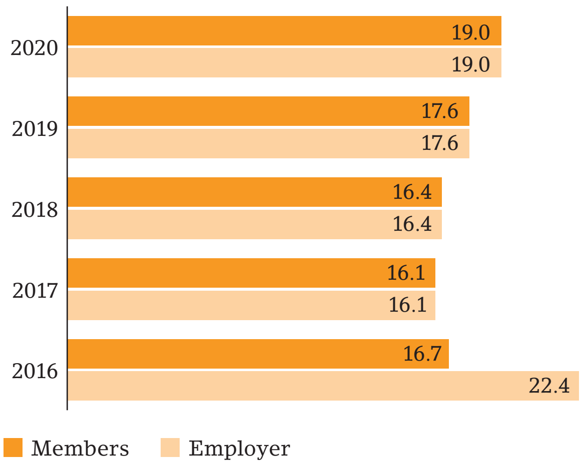
New pensions, by age and years of service
year ended March 31, 2020

Years of service	Age at retirement < 55	55 < 60	60 < 65	≥ 65	Total	Average annual Salary base	Pension	Median annual pension	Present value of pensions Average	Total ($ millions)
< 10	—	7	7	3	17	$ 86,500	$ 9,000	$ 8,900	$ 143,000	$ 2.6
10 ≤ 15	—	6	8	2	16	89,400	24,400	25,800	386,000	6.2
15 ≤ 20	—	3	4	6	13	103,800	31,100	23,600	491,000	6.4
20 ≤ 25	—	2	9	4	15	98,100	41,000	39,000	701,000	10.5
25 ≤ 30	—	8	10	8	26	92,800	47,600	46,600	872,000	22.7
30 ≤ 35	—	12	7	6	25	95,600	54,100	50,900	1,052,000	26.3
≥ 35	—	1	4	4	9	118,700	68,000	55,400	1,441,000	13.0
Total	0	38	48	36	122					$87.7
Average of all pensions						$ 95,800	$39,200	$36,800	$ 699,000	
Average years of service			23	22	23	22				
Average age					62					

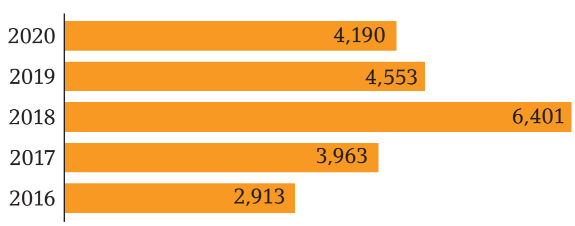
New pensions, by type
year ended March 31

	Regular	Pre-retirement limited member	Post-retirement limited member	Long-term disability	Deferred	Survivor	Total
2020	**96**	—	—	**14**	**11**	**1**	**122**
2019	114	3	—	16	15	2	150
2018	105	1	—	17	12	6	141
2017	117	6	1	17	13	1	155
2016	99	1	—	9	19	2	130

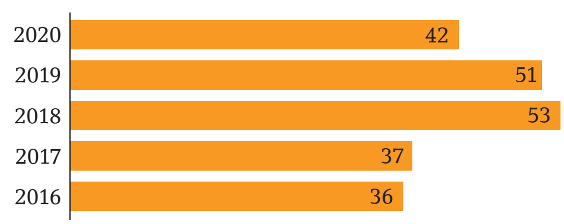
Contributions ($ millions)
year ended March 31



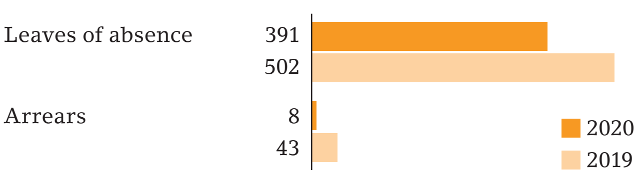
Termination and refund benefits paid, by value
($ thousands)
year ended March 31



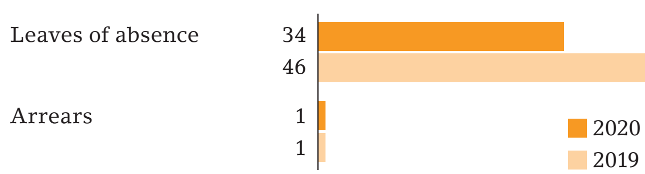
Termination and refund benefits paid, by number
year ended March 31



Purchases, by value ($ thousands)
year ended March 31



Purchases, by number
year ended March 31



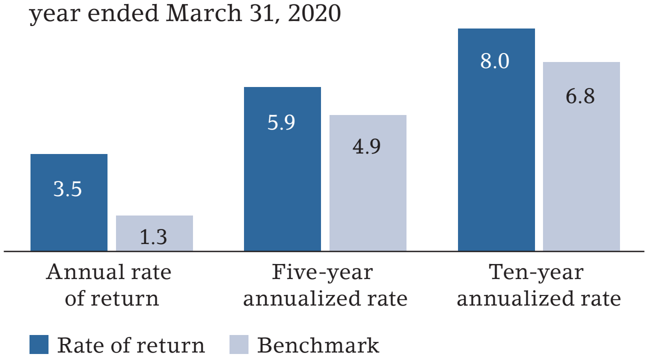
Healthy performance

Plan investments

Investment results

For the year ended March 31, 2020, the WorkSafeBC Pension Plan's investment holdings increased in value to $2.3 billion, compared to $2.2 billion one year ago. This increase reflects investment returns and a net $25 million in withdrawals.

Rate of return vs. benchmarks[1] (%)
year ended March 31, 2020



1 Benchmarks are standards to compare against actual investment returns

Investment performance—market value rates of return
year ended March 31

	Year	Rate of return (%)	Benchmark (%)[1]
Annual rates	**2020**	**3.5**	**1.3**
	2019	6.5	6.0
	2018	8.2	6.7
	2017	11.7	10.7
	2016	0.0	0.1
Five-year annualized rates	**2020**	**5.9**	**4.9**
	2019	8.0	7.1
Ten-year annualized rates	**2020**	**8.0**	**6.8**
	2019	9.1	8.2

1 Benchmarks are standards to compare against actual investment returns

Despite the extraordinary circumstances faced during the last quarter due to the coronavirus pandemic, the plan's investment portfolio returned 3.5 per cent net of fees in the fiscal year, exceeding the benchmark return of 1.3 per cent. The plan also returned 5.9 per cent and 8.0 per cent over the five-year and ten-year periods, respectively, and exceeded its benchmarks over these periods.

The combined fixed income portfolio, which includes money market, bonds and mortgages, earned 3.8 per cent, exceeding the benchmark return of 3.3 per cent. Investors sought safety in investment-grade fixed income investments leading to relative strength in some bond markets. Outperformance was driven by strong returns in the bond and money market portfolio. Mortgage returns softened, reflecting the economic decline and increased repayment risk due to the pandemic.

Public equity markets were broadly affected by the pandemic, though they recovered faster than most optimistic forecasts after March 31. For the year ending March 31, 2020, Canadian equities declined 14.3 per cent, hit by both the pandemic containment efforts and collapsing oil prices. Global equities declined 4.0 per cent; however, a weakening Canadian dollar offset some of the decline in international equities. Emerging markets ended the fiscal year down 11.2 per cent as export markets lagged and the U.S. dollar strengthened. Looking forward, the swift action of global central banks in 2020 that has increased optimism should lead to strong recoveries later in the year.

Private markets had a positive year, reflecting lower volatility than public markets and favourable market conditions. Private equity earned 26.5 per cent, compared to a benchmark return of -3.4 per cent. Private equity uses a public equity benchmark (MSCI AC World Index + 2%), and this benchmark return was affected by the COVID-19 crisis. Private markets are valued less frequently than public markets, and returns do not yet reflect the impact of the pandemic. While future valuations will likely show a decline, the long-term nature of these holdings means they will likely continue to add stable value even after the new market realities have been priced in.

The infrastructure and renewable resources program earned 8.3 per cent, against a benchmark return of 7.0 per cent. The portfolio is well positioned to manage the impact of the pandemic-driven downturn, with half invested in regulated utilities, limited transport exposure and almost no exposure to oil.

Real estate returned 5.2 per cent, against a benchmark return of 4.9 per cent. Market conditions for Canadian industrial and residential apartment properties were strong in 2019, with national vacancy rates at historically low levels, and in 2020, the portfolio benefited from low exposure to retail.

Investment asset mix and performance
as at March 31, 2020

(All values %)	Approved range	Target asset mix	Actual asset mix	Rate of return	Performance benchmark
Fixed income	**15–50**	**39**	**36.6**	**3.8**	**3.3**
Short-term	0–10	2	2.2	5.1	1.9
Mortgages	0–10	5	3.5	5.0	6.7
Bonds	5–30	23	23.3	4.7	4.5
Corporate bonds	0–10	5	4.9	1.2	(1.8)
Private debt	0–10	4	2.7	4.4	1.1
Equities	**20–60**	**32**	**35.7**	—	—
Canadian equities	0–15	3	2.8	(14.3)	(14.2)
Global equities	10–35	17	18.8	(4.0)	(4.2)
Emerging markets	3–15	4	4.5	(11.2)	(12.3)
Private equity	3–15	8	9.6	26.5	(3.4)
Real estate	**10–25**	**16.0**	**15.1**	**5.2**	**4.9**
IRR[1]	**5–16**	**13.0**	**12.3**	**8.3**	**7.0**
Other[2]	**0–5**	**0**	**0.3**	—	—
Total portfolio		**100.0**	**100.0**	**3.5**	**1.3**

1 Infrastructure and renewable resources
2 Other—includes cash and unsettled trades

Responsible investing

Responsible investing is an integral part of the plan's investment approach. The plan and BCI believe that assessing and managing risk over the long term—the cornerstone of responsible investing—is a fundamental way to meet their mandate to grow and protect the value of the plan's fund. Taking environmental, social and governance (ESG) matters into account enables BCI, as an investor, to better understand, manage and mitigate risks associated with long-term investments. BCI believes companies that employ robust ESG practices are better positioned to generate long-term value for investors than similar companies with less-favourable practices.

ESG considerations are integrated into investment analysis, decisions and processes. As an active owner, BCI monitors ESG factors and engages with companies to raise awareness that good corporate governance is the overarching framework for effective management of risk.

Collaborating with like-minded investors and organizations to enhance governance practices and standards is important to the Pension Committee. BCI is a signatory to the Principles for Responsible Investment (PRI), an international network of investors coordinated by the United Nations that share the goal of incorporating ESG elements into the processes and activities of institutional investors. BCI's and the Pension Committee's approach to responsible investing is aligned with the PRI, which provides a set of principles for institutional investors to consider as they integrate ESG factors into their investment processes and analysis, ownership activities, and interactions with long-term investors.

BCI collaborates with a number of other organizations, including the International Corporate Governance Network and Climate Action 100+, among others.

Climate change is a key focus of both long-term investment risk and opportunity at BCI. BCI's climate action plan outlines four activities to appropriately manage climate change risk across all asset classes, as well as integrate climate change–related information into our investment decision-making process.

BCI uses climate change scenarios to identify macroeconomic climate-related risks and opportunities that have the potential to affect our clients' investment returns. At the asset class level, the assessment of climate change risk is evaluated, as appropriate, based on the nature of the investment.

In addition, the Pension Committee supports BCI in responsible investing as a member of the steering committee for the 30% Club, which advocates for companies to enhance gender diversity, and the Sustainability Accounting Standards Board, which has a mandate to promote standards of sustainability reporting.

Plan members can learn more about responsible investing activities on the BCI website at **BCI.ca**.

Market outlook for 2020/21

The plan holds a long-term investment perspective and can withstand short-term market volatility. The Pension Committee and BCI remain focused on holding a diversified investment portfolio that follows a disciplined, long-term approach to managing the plan's investments.

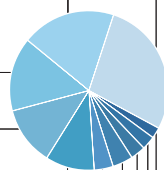
Looking forward, we expect geopolitical tensions and policy uncertainties to remain high, with ongoing trade disputes, implications from Brexit and signs of slowing global growth. Concerns over slowing growth led the Bank of Canada and the U.S. Federal Reserve to pause interest rate hikes, resulting in a boost in fixed income returns. While income-generating assets may benefit from a stable rate policy, a slowing economy may negatively affect growth-oriented assets.

During the fiscal year, the plan reduced its exposure to public equities and increased its exposure to fixed income, real estate, private equity, and infrastructure and renewable resources, as these assets provided stronger returns. BCI continues to focus on risk management, expanding and diversifying investment strategies, and internalizing asset management. BCI believes these measures will support the plan in meeting its return objectives and building long-term wealth for plan members.

Plan investment details

Investment holdings[1] ($ millions)
as at March 31, 2020

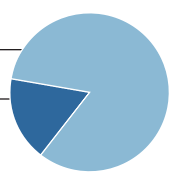
Bonds	$640.6	28%
Global equities	$427.7	19%
Real estate	$344.1	15%
IRR[2]	$279.8	12%
Private equity	$218.5	10%
Emerging markets equities	$102.3	4%
Mortgages	$79.2	4%
Other	$67.9	3%
Canadian equities	$64.4	3%
Short-term	$50.9	2%



1 Asset classifications vary from the financial statements for the purpose of performance reporting
2 Infrastructure and renewable resources

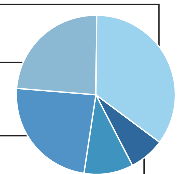
Infrastructure and renewable resources ($ millions)
as at March 31, 2020

Infrastructure	$232.1	83%
Renewable resources	$47.7	17%



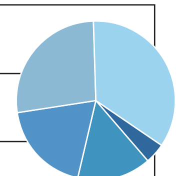
Real estate, by type (%)
as at March 31, 2020

Office	35
Residential	24
Industrial	24
Retail	10
Other	7



Real estate, by location (%)
as at March 31, 2020

International	35
Ontario	27
British Columbia	19
Alberta	15
Rest of Canada	4

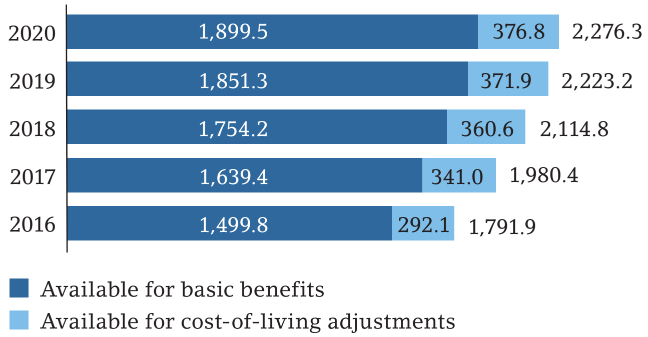


Investment portfolio[1]
as at March 31, 2020

	Market value ($ thousands)	Asset mix (%)
Short-term		
Money market	$ 44,470	1.9
Government bonds (1–5 years)	6,434	0.3
	50,904	2.2
Bonds		
Canadian	529,669	23.3
Corporate	110,944	4.9
	640,613	28.2
Mortgages	79,213	3.5
Private debt	61,002	2.7
Canadian equities	64,416	2.8
Global equities		
United States	99,376	4.4
Global	279,860	12.3
Europe	29,643	1.3
Asia	18,825	0.8
	427,704	18.8
Emerging markets equities	102,304	4.5
Real estate	344,149	15.1
Private equity and infrastructure and renewable resources		
Private equity	218,526	9.6
IRR[2]	279,783	12.3
	498,309	21.9
Other[3]	6,899	0.3
Total investments	**$2,275,513**	**100.0**
2019 comparison	$ 2,222,266	

1 Asset classifications vary from the financial statements for the purpose of performance reporting
2 Infrastructure and renewable resources
3 Other—includes cash and unsettled trades

Net assets available for benefits ($ millions)
as at March 31



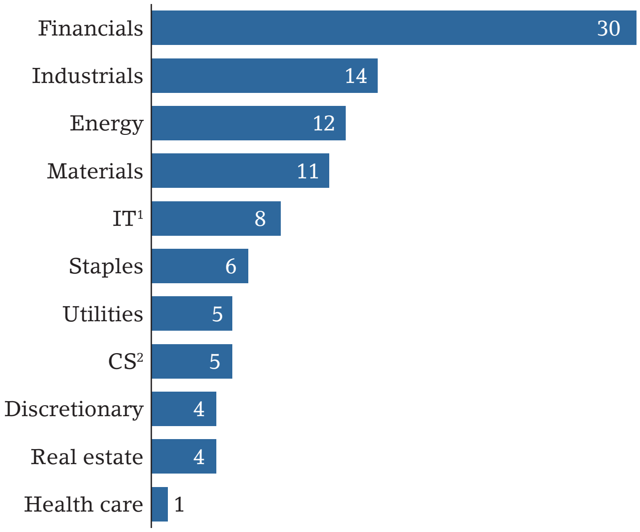
Five-year financial summary ($ thousands)
year ended March 31

	2020	2019	2018	2017	2016
Increase in assets					
Investment income	**$ 82,131**	$ 140,147	$ 165,432	$ 212,105	$ 2,835
Contributions					
Employer	**19,042**	17,641	16,388	16,074	22,382
Members	**19,039**	17,609	16,380	16,104	16,758
Transfers from other plans	**4,854**	595	2,231	1,199	1,730
Total increase in assets	**125,066**	175,992	200,431	245,482	43,705
Decrease in assets					
Pension benefits	**61,668**	57,067	52,832	48,314	44,295
Termination and refund benefits	**4,190**	4,553	6,401	3,963	2,913
Transfers to other plans	**1,038**	1,206	967	539	114
Investment and administration costs	**5,065**	4,752	5,800	4,192	3,883
Total decrease in assets	**71,961**	67,578	66,000	57,008	51,205
Increase (decrease) in net assets	**53,105**	108,414	134,431	188,474	(7,500)
Net assets available for benefits at beginning of year	**2,223,239**	2,114,825	1,980,394	1,791,920	1,799,420
Net assets available for benefits at end of year	**$2,276,344**	$2,223,239	$2,114,825	$1,980,394	$1,791,920
Investment and administration costs as a percentage of net asssets (%)					
Investment management[1,2]	**0.37**	0.28	0.33	0.24	0.20
Benefit administration	**0.05**	0.06	0.06	0.06	0.05

1 Investment costs as a percentage of net assets include certain external investment management costs totalling $4.7 million (2019—$2.4 million; 2018—$2.1 million; 2017—$1.4 million; 2016—$694,000) that are netted against investment income and are not included in investment and administration costs in the financial statements.

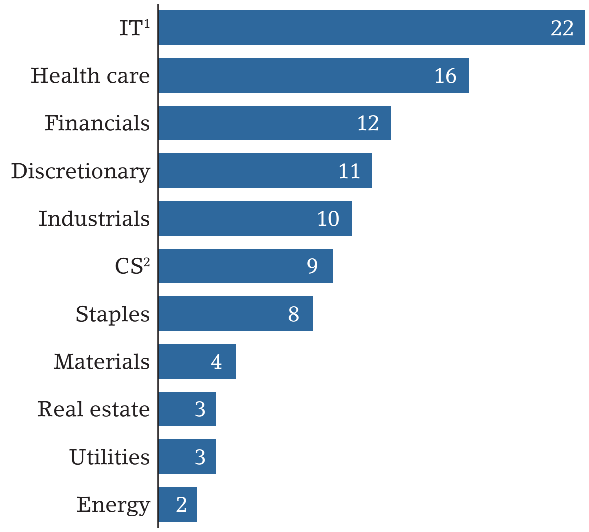
2 Investment costs as a percentage of net assets exclude external indirect investment management costs netted against investment income on the statement of changes in net assets available for benefits. This is consistent with current industry practice; including these costs increases investment management costs as a percentage of net assets by 29 basis points in the 2020 fiscal year. External indirect investment management costs include limited partnership costs incurred within investments held in private equity, infrastructure and global real estate asset classes.

Canadian equities, by sector (%)
as at March 31, 2020



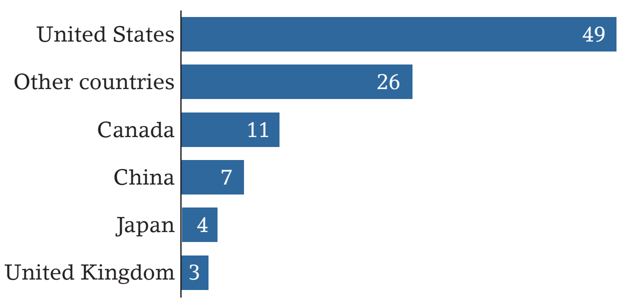
1 Information technologies
2 Communication services

Global equities, by sector (%)
as at March 31, 2020



1 Information technologies
2 Communication services

Equities, by country (% of public equity)
as at March 31, 2020



The plan remains healthy

Valuation

At least once every three years, an independent actuary assesses the financial position of the plan. (An actuary is a specialist in financial modelling, the principles of probability and risk management.) The actuarial valuation completed as at March 31, 2017, confirmed the plan is in a strong and healthy position.

For the WorkSafeBC Pension Plan, BC's *Pension Benefits Standards Act* prescribes the valuation of the plan's assets from two perspectives: going concern and solvency. The going-concern valuation (which assumes the plan will continue into the future at least as long as the lifetime of all current members) showed the plan's funded ratio is 129 per cent with an actuarial surplus of $350 million in the basic account.

The solvency valuation (which measures the plan's ability to pay out pensions in the unlikely event of it shutting down on the valuation date) showed the plan's funded ratio is 103 per cent with an actuarial surplus of $41 million in the basic account.

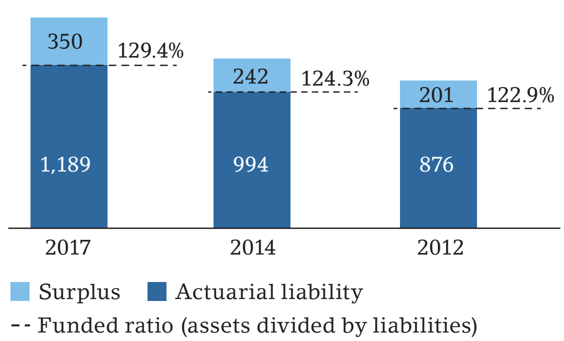
The next valuation will be prepared as at March 31, 2020, and results will be announced in early 2021.

Actuarial going-concern valuations
($ millions)
as at March 31

	2017	2014	2012
Actuarial net assets	$1,538	$1,236	$1,077
Actuarial liabilities	1,189	994	876
Net actuarial surplus[1]	350	242	201

1 After including $14 million (2014—$13 million; 2012—$9 million) of future cost for benefits in excess of *Income Tax Act* limits, the 2017 surplus reduces to $335 million (2014—$229 million; 2012—$192 million).

Going-concern funding of the basic benefit liability ($ millions)
as at March 31



Who we are

Governance, agents and plan updates

Pension Committee

The WorkSafeBC Board of Directors is responsible for appointing members of the Pension Committee. As at March 31, 2020, the plan had three committee members: Brian Erickson (employer representative), James Morrison (member representative) and Paul Martin (independent representative). Among other duties, the Pension Committee assists WorkSafeBC in administering the plan, with a particular focus on investment and fund management.

From left to right: Brian Erickson (employer representative), Paul Martin (independent representative) and James Morrison (member representative)

Wendy Strugnell (employer representative, effective May 31, 2020)

The WorkSafeBC Board of Directors has appointed Wendy Strugnell to the Pension Plan Pension Committee as the employer representative, effective May 31, 2020. Wendy has attended the quarterly Pension Committee meetings since August 2016.

With over 20 years of human resources experience in private and public sector environments, Wendy joined WorkSafeBC in August 2016 as vice-president of Corporate Services and chief human resources officer (renamed to head of People and Culture after the alignment). In this role, Wendy provides senior leadership for human resources/labour relations, learning and development, and the review division.

The Pension Committee, on behalf of the board, would like to thank Brian Erickson for eight years of contribution to the Pension Committee.

Agents

British Columbia Investment Management Corporation

British Columbia Investment Management Corporation (BCI) is a leading provider of investment management services to British Columbia's public sector and one of the largest asset managers in Canada. With its global outlook, BCI seeks investment opportunities that convert savings into productive capital to meet it's clients' risk and return requirements over time. BCI offers investment options across a range of asset classes: fixed income, mortgages, public and private equity, real estate, infrastructure and renewable resources.

BC Pension Corporation

As one of the largest professional pension services providers in Canada, BC Pension Corporation serves over 639,000 active, inactive and retired pension plan members and more than 1,000 employers, paying out more than $400 million in benefits each month ($4.8 billion a year) to more than 207,000 retirees. As the administrative agent working on behalf of the WorkSafeBC Pension Plan, it provides pension administration services to the plan. These services include providing plan information to members and employers, managing contributions and member records, paying pensions, and providing policy, financial and communication services.

Eckler Ltd.

Serving as the plan's independent actuary, Eckler Ltd. conducts an actuarial valuation on the plan's funding every three years and supports the Pension Committee and the WorkSafeBC Board of Directors in their decision making, as appropriate.

Plan rule changes

The plan rules were amended to add a new purchase option, effective July 1, 2020, to allow members to make contributions to the plan while on an *Employment Standards Act*–approved leave. In addition, a minor amendment was made to prescribe the use of an updated refund interest rate applied to member contributions, for periods on or after October 1, 2019.

Financial statements

BC PENSION CORPORATION

September 21, 2020

Re: WorkSafeBC Pension Plan

Administrative Agent's Responsibility for Financial Reporting

The financial statements of the WorkSafeBC Pension Plan (Plan) were prepared by British Columbia Pension Corporation (Pension Corporation), the Plan's administrative agent, in accordance with Canadian accounting standards for pension plans. The WorkSafeBC Pension Plan Pension Committee is responsible for approving the financial statements of the Plan.

Pension Corporation prepares the financial statements and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with Canadian accounting standards for pension plans. In discharging its responsibility, Pension Corporation maintains a system of internal controls designed to provide reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately safeguarded, ensuring the fair presentation of the financial statements. Pension Corporation has assessed that the Plan will continue as a going concern and ensured that other financial information contained in the *WorkSafeBC Pension Plan Annual Report* is consistent with these financial statements.

The WorkSafeBC Board of Directors appointed Eckler Ltd. as the independent consulting actuary for the Plan. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice. The results of the valuation are included in the financial statements.

The WorkSafeBC Board of Directors appointed KPMG LLP as the independent auditor to the Plan. The role of the auditor is to perform an independent audit of the Plan's financial statements in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the independent auditor's report attached to these financial statements.

Trevor Fedyna, CPA, CGA, C. Dir.	**Allan Chen, CPA, CA**
Vice-president, Strategy, Insight and Chief Financial Officer British Columbia Pension Corporation	Controller, Financial Services British Columbia Pension Corporation

Executive Offices
Mail: PO Box 9460
Victoria, BC V8W 9V8
Phone: 250 387-8201
Fax: 250 953-0429
bcpensioncorp.ca

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Members of the WorkSafeBC Pension Plan

Opinion

We have audited the financial statements of the WorkSafeBC Pension Plan (the "Plan"), which comprise:

- the statement of financial position as at March 31, 2020
- the statement of changes in net assets available for benefits for the year then ended
- the statement of changes in accrued pension obligations for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at March 31, 2020, and the changes in its net assets available for benefits and the changes in its accrued pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors' report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Plan'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 management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our 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 the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the 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 our 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 Plan'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 Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
September 21, 2020

WORKSAFEBC PENSION PLAN

Statement of Financial Position

($ thousands)

As at March 31	Note	2020	2019
Assets			
Investments	3a	$ **2,287,679**	$ 2,222,283
Directly held derivatives	3b	**2,576**	950
Receivables			
Due from sale of investments		**7,226**	5,814
Employers' contributions		**1,428**	1,294
Members' contributions		**1,374**	1,288
Accrued interest		**84**	-
Other		**7**	5
		10,119	8,401
Cash		**3**	1
Total assets		**2,300,377**	2,231,635
Liabilities			
Directly held derivatives	3b	**21,721**	2,421
Accounts payable and accrued expenses		**906**	917
Taxes payable		**722**	698
Payable for purchase of investments		**684**	4,360
Total liabilities		**24,033**	8,396
Net assets available for benefits		**$ 2,276,344**	**$ 2,223,239**
Accrued pension obligations			
Accrued basic pension obligations	4a	$ **1,398,637**	$ 1,327,876
Non-guaranteed pension obligations	4b	**376,818**	371,874
Accrued pension obligations		**1,775,455**	1,699,750
Surplus			
Funding surplus	5a	**481,397**	474,325
Measurement differences between funding and accounting positions	5a	**19,492**	49,164
Surplus		**500,889**	523,489
Accrued pension obligations and surplus		**$ 2,276,344**	**$ 2,223,239**

All accompanying notes are an integral part of the financial statements including:
Commitments (note 14)

Approved by the WorkSafeBC Pension Plan:

Wendy Strugnell
Committee member
WorkSafeBC Pension Plan Pension Committee

James Morrison
Committee member
WorkSafeBC Pension Plan Pension Committee

Paul Martin
Committee member
WorkSafeBC Pension Plan Pension Committee

WORKSAFEBC PENSION PLAN

Statement of changes in net assets available for benefits

($ thousands)

For the year ended March 31	Note	Basic account	Inflation adjustment account	Supplemental benefits account	Totals 2020	Totals 2019
Increase in assets						
Investment income	8	$ 67,756	$ 14,375	$ -	**$ 82,131**	$ 140,147
Contributions						
Member	9	16,294	2,724	21	**19,039**	17,609
Employer	9	15,442	2,716	884	**19,042**	17,641
		31,736	5,440	905	**38,081**	35,250
Transfers from other plans		3,988	866	-	**4,854**	595
Total increase in assets		103,480	20,681	905	**125,066**	175,992
Decrease in assets						
Benefits	10	63,279	1,683	896	**65,858**	61,620
Investment and administration	11	4,417	639	9	**5,065**	4,752
Transfers to other plans		488	550	-	**1,038**	1,206
Total decrease in assets		68,184	2,872	905	**71,961**	67,578
Increase in net assets before transfers		35,296	17,809	-	53,105	108,414
Account transfers	12	12,865	(12,865)	-	-	-
Increase in net assets		**$ 48,161**	**$ 4,944**	**-**	**$ 53,105**	**$ 108,414**
Net assets available for benefits at beginning of year		$ 1,851,365	$ 371,874	-	**$ 2,223,239**	$ 2,114,825
Net assets available for benefits at end of year		**$ 1,899,526**	**$ 376,818**	**-**	**$ 2,276,344**	**$ 2,223,239**

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

WORKSAFEBC PENSION PLAN

Statement of changes in accrued pension obligations

($ thousands)

For the year ended March 31	Note	2020	2019
Increase in accrued pension obligations			
Interest on accrued pension obligations		$ **74,731**	$ 70,974
Benefits accrued		**49,047**	42,154
Account transfers	12	**12,865**	13,825
Total increase in accrued pension obligations		**136,643**	126,953
Decrease in accrued pension obligations			
Benefits paid		**65,882**	61,439
Total decrease in accrued pension obligations		**65,882**	61,439
Net increase in accrued pension obligations		**70,761**	65,514
Accrued basic pension obligations at beginning of year		**1,327,876**	1,262,362
Accrued basic pension obligations at end of year	4a	**1,398,637**	1,327,876
Increase in non-guaranteed pension obligations	4b	**4,944**	11,303
Non-guaranteed pension obligations at beginning of year		**371,874**	360,571
Non-guaranteed pension obligations at end of year	4b	**376,818**	371,874
Total accrued pension obligations		**$ 1,775,455**	**$ 1,699,750**

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

1. DESCRIPTION OF THE WORKSAFEBC PENSION PLAN

The following description of the WorkSafeBC Pension Plan (Plan) is a summary provided for general information only. For more information, please refer to the WorkSafeBC Pension Plan Rules.

a) General

The Plan is a contributory defined benefit pension plan, established in 1941 under the authority of the *Workmen's Compensation Act Amendment Act*. Effective September 30, 2015, the WorkSafeBC Board of Directors modernized the plan rules, including a name change. It was formerly the Workers' Compensation Board Superannuation Plan.

The Plan is registered with the Superintendent of Pensions, who administers and enforces the *Pension Benefits Standards Act* (PBSA). PBSA governs employment pension plans registered in British Columbia that have active, inactive and retired members.

Membership in the Plan is open to all eligible employees of WorkSafeBC.

b) Roles and responsibilities

WorkSafeBC is fully responsible for the management of the Plan, including the investment of assets and administration of the Plan. The WorkSafeBC Board of Directors appoints members to the WorkSafeBC Pension Plan Pension Committee (Pension Committee). There are three committee members, one representing WorkSafeBC as the employer, one representing plan members and one to provide an independent perspective.

British Columbia Pension Corporation (Pension Corporation) provides benefit administration services as an agent of WorkSafeBC.

British Columbia Investment Management Corporation (BCI) provides investment management services, including the valuation of investments, as an agent of WorkSafeBC.

c) Funding

Contributions and investment earnings fund plan benefits. Contributions are made by active members of the Plan and WorkSafeBC. The determination of the value of the benefits and required contributions is based on periodic actuarial valuations for funding purposes.

WorkSafeBC's funding policy is intended to secure the pension benefit obligation and achieve long-term stability in contribution rates for both WorkSafeBC and members.

d) Contributions

Basic Account

Members contribute to the Basic Account 5.5% of salaries, up to and including the Canada Pension Plan (CPP) Year's Maximum Pensionable Earnings (YMPE) (2020: $58,700; 2019: $57,400 dollars), and 7.0% of salaries above the YMPE, less amounts allocated to the Supplemental Benefits Account.

WorkSafeBC contributes to the Basic Account 5.5% of salaries, up to and including YMPE, and 7.0% of salaries above YMPE, less amounts allocated to the Supplemental Benefits Account.

Inflation Adjustment Account (IAA)

Members and WorkSafeBC each contribute 1.0% of salaries to the IAA.

1. DESCRIPTION OF THE WORKSAFEBC PENSION PLAN (CONTINUED)

e) Pension benefits

All members are eligible for a pension benefit.

Members are eligible for unreduced pension benefits

- at age 65;
- at age 60, with at least two years contributory service; or
- at age 55 or older, with age plus years of contributory service totalling 90 or more.

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the CPP. As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to YMPE and 2.0% of pensionable earnings over YMPE, for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's highest five-year average annual salary (HAS).

The Plan provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or HAS for each year of pensionable service.

Future cost-of-living adjustments are not guaranteed but may be provided each January 1 according to the cost-of-living adjustment provisions of the Plan. These cost-of-living adjustments are based on the annual increase in the Canada consumer price index (CPI) as at the previous September 30, subject to the availability of funds in the IAA and reduced for the CPI decrease, if any, in the prior years.

f) Termination and portability benefits

A terminating member who is eligible for a pension but has not reached the earliest retirement age, may choose

- a deferred pension, or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in retirement vehicle or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future re-employment with WorkSafeBC.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer contributory and pensionable service to another pension plan.

g) Other benefits

All WorkSafeBC employees are covered by the WorkSafeBC long-term disability (LTD) plan; therefore, plan members are not eligible for a disability benefit under the Plan.

A death benefit may be available to a surviving spouse or designated beneficiary upon the death of an active member. Depending on eligibility requirements, the benefit may be paid in the form of a survivor pension or lump-sum payment.

Supplemental benefits are funded from the Supplemental Benefits Account.

1. DESCRIPTION OF THE WORKSAFEBC PENSION PLAN (CONTINUED)

h) Tax registration

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act* (Canada) (Tax Act) (registration number 0314146), except for any supplemental benefits, which are funded in addition to the RPP. The Plan is not subject to income taxes but is subject to indirect taxes, including British Columbia provincial sales tax (PST) and Canadian federal goods and services tax (GST). The Plan receives a 33% rebate of GST paid.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared on the going-concern basis in accordance with Canadian accounting standards for pension plans, Part IV of the *Chartered Professional Accountants of Canada Handbook* (CPA Canada Handbook), and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employer and members.

Accounting standards for private enterprises in Part II of the CPA Canada Handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio or accrued pension obligations.

b) Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

c) Accrued pension obligations

Accrued pension obligations are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The Plan actuary is Eckler Ltd. The valuation of accrued pension obligations is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method pro-rated on service, that incorporates the independent actuary's estimate of various economic and demographic non-economic assumptions. These assumptions are the same as those used in the determination of the actuarial position of the Plan for funding purposes.

d) Investment income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses that are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date and interest is recognized on an accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

($ thousands except as otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rates on the year-end date. Income and expenses are translated into Canadian dollars at the prevailing exchange rates on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within the current period change in fair value in investment income.

f) Use of estimates

The preparation of financial statements, in conformity with Canadian accounting standards for pension plans, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of increases and decreases in assets and liabilities during the period. Significant areas requiring the use of management estimates relate to the valuation of investments based on unobservable inputs, as further described in note 7, and the calculation of the accrued pension obligation of the Basic Account for accounting and funding purposes as further described in notes 4 and 5. Actual results could differ materially from these estimates.

3. INVESTMENTS

a) Investments

Fair value of investment holdings			2020			2019
	Basic account	Inflation adjustment account	Total	Basic account	Inflation adjustment account	Total
Short-term	$ **42,522**	$ **8,382**	$ **50,904**	$ 61,077	$ 12,198	$ 73,275
Bonds	**589,461**	**116,199**	**705,660**	397,917	79,470	477,387
Canadian equities	**53,809**	**10,607**	**64,416**	204,403	40,822	245,225
U.S. equities	**83,012**	**16,364**	**99,376**	74,085	14,796	88,881
International equities	**359,721**	**70,911**	**430,632**	418,145	83,510	501,655
Mortgages	**67,871**	**13,379**	**81,250**	60,299	12,043	72,342
Real estate	**293,682**	**57,893**	**351,575**	290,325	57,982	348,307
Private equity	**182,542**	**35,984**	**218,526**	138,972	27,755	166,727
IRR*	**238,354**	**46,986**	**285,340**	207,119	41,365	248,484
	$ 1,910,974	**$ 376,705**	**$ 2,287,679**	**$ 1,852,342**	**$ 369,941**	**$ 2,222,283**

* Infrastructure and renewable resources

3. INVESTMENTS (CONTINUED)

a) Investments (continued)

Plan investments consist primarily of direct ownership in units of pooled investment portfolios. Each unit gives its holder a proportionate share in the value of the net assets of the pooled investment fund. The Basic Account and IAA are combined for investment management purposes.

One or more pooled investment portfolios exist for different types of investments, such as short-term investments; bonds; Canadian, U.S. and international equities; mortgages; real estate; private equity; and infrastructure and renewable resources. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments.

Short-term investments consist of Canadian and U.S. money market securities such as treasury bills with maturities of 15 months or less, and short-term bonds with one to five year terms. Short-term investments are valued using current market yields.

Bonds consist of government bonds, investment grade and non-investment grade corporate bonds, and debentures. Bonds are valued based on current market yields and, in some cases, quoted market prices. Equities consist primarily of publicly traded shares and are valued based on quoted market prices on the primary exchanges on which they are traded.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. The mortgages are secured by real estate and are valued using current market yields. Real estate investments consist mainly of diversified Canadian and U.S. income-producing properties. Real estate investments are valued quarterly by external investment managers and, at least once every 10 to 18 months, by accredited independent appraisers to establish current market values.

Private equity consists mainly of equity investments made outside the structure of public markets. Private equity is valued annually based on audited financial statements from external investment managers using a market-based approach or discounted cash flows.

Infrastructure and renewable resources consist of privately owned and managed infrastructure assets, as well as timber, agriculture and other renewable assets. Infrastructure and renewable resources investments are valued annually using a market-based approach or net asset value method.

($ thousands except as otherwise noted)

3. INVESTMENTS (CONTINUED)

b) Derivatives

Derivatives contracts are directly and indirectly held by the Plan. The details of these contracts are as follows:

Fair Value of derivative contracts	2020		2019	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Directly held				
Foreign currency forwards	$ 2,576	$ (21,721)	$ 950	$ (2,421)
	$ 2,576	$ (21,721)	$ 950	$ (2,421)
Indirectly held in pooled investment portfolios				
Foreign currency forwards	$ 124	$ (7,396)	$ 108	$ (262)
Options	2,256	(2,105)	-	(15)
Futures	-	-	111	-
Interest rate swaps	52	(3,040)	12	(1,453)
Total return swaps	8,019	(41,231)	14,294	(456)
	$ 10,451	$ (53,772)	$ 14,525	$ (2,186)
Total derivatives	$ 13,027	$ (75,493)	$ 15,475	$ (4,607)
Derivatives by investment asset classification				
Bonds	$ 174	$ (11,491)	$ 221	$ (398)
Canadian equities	1,808	(3,069)	3,120	(372)
U.S. equities	840	(2,986)	2,955	(352)
International equities	7,680	(40,322)	8,259	(1,201)
Mortgages	148	(2,185)	19	(211)
Real estate	435	(8,046)	146	(519)
Private equity	-	-	-	(2)
Infrastructure and renewable resources	1,942	(7,394)	755	(1,552)
Total derivatives	$ 13,027	$ (75,493)	$ 15,475	$ (4,607)

Derivative contracts consist of foreign currency forward contracts, options, futures, interest rate swaps and total return swaps held directly by the Plan or indirectly through various pooled investment portfolios. Directly held and indirectly held derivative contracts are reflected at fair value based on expected settlement amounts at the date of the Statement of Financial Position. Directly held derivatives are disclosed on the face of the Statement of Financial Position, while indirectly held derivatives are included in investments.

A foreign currency forward contract is a privately negotiated contractual obligation to exchange one currency for another at a specified price for settlement on a predetermined date in the future. Foreign currency forward contracts are held by the Plan to manage exposure to foreign currency risk.

3. INVESTMENTS (CONTINUED)

b) Derivatives (continued)

Options are contracts that give the buyer the right, but not the obligation, to buy or sell a certain security or index at an agreed-upon price on or before a specified date. Futures contracts are exchange-traded contractual obligations to take or make delivery of an asset at a predefined price and date in the future. Options and futures are held for synthetic indexing, a modern technique used to replicate the performance of a security or index without directly purchasing or selling the underlying assets and for risk control.

An interest rate swap is an agreement between two counterparties in which one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps usually involve the exchange of a fixed interest rate for a floating interest rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates or to obtain a marginally lower interest rate than would have been possible without the swap.

A total return swap is a swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, including both the income it generates and any capital gains. In total return swaps, the underlying asset, referred to as the reference asset, is usually an equity index or basket of equity securities. Interest rate swaps and total return swaps are held indirectly through various pooled investment portfolios for synthetic indexing purposes and for risk control.

Derivative transactions are supported with collateral to mitigate counterparty credit risk. A single net fair value amount is used to determine the value of collateral with each counterparty. Collateral approximately equal to the positive fair value of each derivative contract has been provided by counterparties, and collateral approximately equal to the negative fair value of each derivative contract has been delivered to counterparties. Acceptable forms of collateral include Canadian federal or provincial bonds, and U.S. federal government treasury bills and bonds.

The notional value of derivatives is the total value of a position, how much value a position controls, or an agreed-upon amount in a contract.

($ thousands except as otherwise noted)

3. INVESTMENTS (CONTINUED)

b) Derivatives (continued)

Notional value of derivatives			2020	2019
Term to maturity	Within 1 year	1 to 5 years	Total	Total
Derivatives by type of contract				
Foreign currency forwards	$ 498,493	$ -	$ 498,493	$ 272,645
Futures	-	-	-	3,125
Options	4,888	-	4,888	495
Interest rate swaps	55,048	147,144	202,192	174,033
Total return swaps	403,954	1,245	405,199	302,346
	$ 962,383	$ 148,389	$ 1,110,772	$ 752,644
Derivatives by investment asset classification				
Bonds	$ 168,957	$ -	$ 168,957	$ 72,174
Canadian equities	32,711	8,972	41,683	75,620
U.S. equities	65,623	25,645	91,268	91,080
International equities	365,664	113,772	479,436	310,552
Mortgages	37,141	-	37,141	25,662
Real estate	128,050	-	128,050	77,937
Private equity	-	-	-	460
IRR*	164,237	-	164,237	99,159
	$ 962,383	$ 148,389	$ 1,110,772	$ 752,644

* Infrastructure and renewable resources

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

a) Basic Account

In accordance with PBSA, an actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in note 5a.

Canada Revenue Agency (CRA) sets maximum limits on the amount of pension plan income that can be paid to a pension recipient from the registered funds of a pension plan. Any portion of a pension that exceeds the CRA limits is called a supplemental benefit. As part of the actuarial valuation, the actuary calculates values for accounting purposes for Basic Account assets as at the financial statement date and for pension liabilities accrued to the financial statement date. For this purpose, supplemental benefits are recognized, in contrast to their exclusion in the valuation for funding purposes as described in note 5a.

Also for accounting purposes, the full impact of investment fair value changes is reflected in the financial statements as at the financial statement date compared with the deferral and amortization of fair value gains or losses in the valuation for funding purposes. The liability for accrued basic pension obligation at the valuation date is determined using the projected benefit method pro-rated on service.

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (CONTINUED)

a) Basic Account (continued)

The latest full actuarial valuation was prepared as at March 31, 2017, by Eckler Ltd. This valuation calculated the liability for accrued basic pension obligations for financial statement purposes to be $1,202,665.

Between valuations, an estimate of the actuarial position is required. This estimate, called an extrapolation, has been made to March 31, 2020, using the following long-term actuarial assumptions:

- Annual investment return 5.65%
- Annual salary escalation rate 2.75%

The extrapolation calculated the liability for accrued basic obligations to be $1,398,637 (2019: $1,327,876).

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings, and the incidence of retirements, withdrawals and changes in other factors may vary significantly from the long-term assumptions used in the extrapolation. In the event of a major change to the Plan, a new valuation or review of assumptions may be required.

The next full actuarial valuation will be carried out as at March 31, 2020 with the results included in the March 31, 2021 financial statements.

Actuarial liabilities are also affected by changes in the assumed investment return. Based on the actuarial valuation completed as at March 31, 2017, a reduction in the investment return assumption from 5.65% to 5.40% would have increased the March 31, 2020, liability for accrued basic obligations of $1,398,637 by $42,163 or 3.01%. Changes to assumptions included in the actuarial valuation are interrelated, and the cumulative impact of changed assumptions may be offsetting.

b) Inflation Adjustment Account, non-guaranteed pension obligations

No unfunded liability exists for the IAA since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any plan provision to fund the IAA to any minimum level of future potential inflation adjustments (note 5b). The accrued non-guaranteed pension obligation is therefore equal to the net assets available for benefits in the IAA, $376,818 (2019: $371,874). The net increase of $4,944 (2019: $11,303) in the IAA balance consists of employee and employer contributions, investment income and net transfers reduced by payments out of the account. (See note 12 for details on amounts transferred.)

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

The Basic Account is the account from which the defined basic benefits of the Plan are paid. In accordance with PBSA, an actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan. For this purpose, the Plan's actuary values both accrued assets and accrued pension obligations to the financial statement date. The actuary assesses the adequacy of the current funding using the projected benefit method pro-rated on service.

($ thousands except as otherwise noted)

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

The Basic Account is also the account from which any cost-of-living adjustments granted to retired members are paid. Future cost-of-living adjustments are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits (note 5b). As cost-of-living adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the cost-of-living adjustments granted. Therefore, accrued basic pension obligations for valuation purposes include the liability for all cost-of-living adjustments granted to the date of the valuation, but not for as-yet-unknown future cost-of-living adjustments.

Under PBSA, a solvency valuation is required as part of the full actuarial valuation. As at March 31, 2017, the plan solvency valuation as calculated by the actuary and based on the market value of assets resulted in a solvency surplus of $41,385.

Actuarial valuation

As at March 31, 2017, the actuarial valuation for funding purposes on a going-concern basis indicated an actuarial surplus of $349,548.

An estimate of the actuarial position of the Plan for funding purposes has been made to March 31, 2020, using the following long-term actuarial assumptions:

- Annual investment return 5.65%
- Annual salary escalation rate 2.75%

This estimate, called an extrapolation, produced an estimated funding surplus of $481,397 at March 31, 2020 (2019: $474,325) as follows:

Funding extrapolation	2020	2019
Net assets available for basic pension benefits	$ 1,899,526	$ 1,851,365
Actuarial asset value adjustment	(34,221)	(63,716)
Smoothed assets for basic pension benefits	1,865,305	1,787,649
Actuarial liability for accrued basic pension benefits	(1,383,908)	(1,313,324)
Actuarial surplus	**$ 481,397**	**$ 474,325**

Changes in the extrapolated actuarial surplus	2020	2019
Actuarial surplus, beginning of year	$ 474,325	$ 420,562
Change in liability for accrued basic pension benefits	(70,584)	(65,247)
Change in smoothed assets for basic pension benefits	77,656	119,010
Actuarial surplus, end of year	**$ 481,397**	**$ 474,325**

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, various factors, including actual wage increases, investment earnings, and the incidence of retirements and withdrawals, may vary significantly from the long-term assumptions used in the extrapolation.

($ thousands except as otherwise noted)

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (CONTINUED)

a) Basic Account (continued)

Measurement difference between funding and accounting positions

The primary components of the measurement differences between the extrapolated actuarial surplus and the financial statement accounting surplus are as follows:

Measurement difference between funding and accounting positions		**2020**		**2019**
Actuarial funding surplus	$	**481,397**	$	474,325
Actuarial asset value adjustment		**34,221**		63,716
Difference in CRA maximums		**(14,729)**		(14,552)
Measurement difference between funding and accounting positions		**19,492**		49,164
Surplus for financial statement purposes	**$**	**500,889**	**$**	**523,489**

Actuarial asset value adjustment

For the purposes of determining the actuarial funding surplus, the actuarial value of net assets available for benefits is determined on an adjusted value basis that smooths the difference between the actual investment return and the expected return based on a long-term real return rate over a five-year period.

The funding policy requires that the value of the assets be smoothed within a certain corridor. In the 2017 valuation, the corridor required that the smoothed value be no more than 110% and no less than 90% of the market value of the assets. The smoothed value of the assets at March 31, 2020, was 98.2% of the market value of the assets (2019: 96.6%).

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the actuarial position on a funding basis. The amounts are based on that proportion of the total fund related to the basic account assets.

Actuarial asset value adjustment		**2020**		**2019**
2020	$	**-**	$	16,926
2021		**28,202**		31,303
2022		**8,489**		11,632
2023		**697**		3,855
2024		**(3,167)**		-
Total adjustment	**$**	**34,221**	**$**	**63,716**

Difference in Canada Revenue Agency maximums

CRA sets maximum limits on the amount of pension plan income that can be paid to a pension recipient from the registered funds of a pension plan. Any portion of a pension that exceeds the CRA limits is called a supplemental benefit. The calculation of the accrued pension obligation liability for financial statement purposes recognizes supplemental benefits, but they are excluded in the calculation of the pension liability for funding purposes.

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (CONTINUED)

b) Inflation Adjustment Account

No unfunded liability exists for the IAA, since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. As cost-of-living adjustments are granted to retired members, full funding for the granted cost-of-living adjustment, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of cost-of-living adjustment required to be paid under the pension plan rules, nor is there any plan provision to fund the IAA to any minimum level for future potential cost-of-living adjustments.

The Pension Committee monitors the performance of the IAA.

6. FINANCIAL RISK MANAGEMENT

The WorkSafeBC Board of Directors approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through BCI, the investment management agent for the WorkSafeBC Board of Directors. The SIPP requires diversification of investments among asset classes, sets guidelines on investment categories, and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by BCI, and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the WorkSafeBC Board of Directors. Such risks include liquidity risk, as well as other financial risks, which comprise currency risk, interest rate risk, other price risk and credit risk.

Financial risks are disclosed on a unit-of-account basis (note 6b), which represents the legal ownership of securities held, and at the underlying securities level (note 6c), which provides additional insight to other risks that may impact the financial instruments of the Plan. Both forms of disclosure provide valuable perspectives into financial risks that may directly or indirectly impact the financial statements and the funded status of the Plan. These two forms of risk disclosure are not additive to each other.

a) Liquidity risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost-effective manner. Expenditures relate primarily to pensions, termination and refund benefits, and investment and administration costs. The Plan's approach to mitigating liquidity risk is to forecast its cash requirements over the near and long term to determine whether sufficient funds are available.

The Plan's primary source of liquidity is income generated from the Plan's investments, and employer and employee contributions. Investments are primarily held in pooled funds, and the securities held are traded in active markets and can be readily sold, and where the pooled fund units can thereby be redeemed to fund cash requirements. Accounts payable and taxes payable of $1,628 (2019: $1,615) and payable for purchase of investments of $684 (2019: $4,360) are generally due within one month. Derivatives payable of $21,721 (2019: $2,421) are due within the next fiscal year.

($ thousands except as otherwise noted)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Financial risks on a unit-of-account basis

Plan investments consist primarily of direct ownership in units of pooled investment portfolios. Each unit gives its holder a proportionate interest in the value of the net assets of the respective pooled investment fund. The unit-of-account for the majority of the Plan's investments is the units of the pooled investment funds.

Investments by unit-of-account	2020	%	2019	%
Pooled investment fund units	$ 2,249,733	98.4	$ 2,192,206	98.6
Directly held equity	27,735	1.2	25,667	1.2
Directly held debt	10,211	0.4	4,410	0.2
Investments	**$ 2,287,679**	**100.0**	**$ 2,222,283**	**100.0**

Market risk is the risk that the fair values of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. Market risk consists of currency, interest rate and other price risk.

Currency risk

Currency risk is the risk that the value of financial instruments denominated in currencies other than the functional currency of the fund will fluctuate due to changes in foreign exchange rates. The Plan holds primarily Canadian dollar denominated investment pooled fund units and is exposed to currency risk through holdings of small amounts of foreign currency denominated private equity, agricultural, bond and debt investments. See note 6c for currency exposure related to underlying securities.

Foreign denominated investments held as a percentage of the fund

	2020	%	2019	%
United States	$ 56,094	2.5	$ 25,888	1.2
Australia	4,108	0.2	4,410	0.2
	$ 60,202	2.7	$ 30,298	1.4

As at March 31, 2020, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets available for benefits would have decreased or increased by approximately $6,020 (2019: $3,030).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of plan investment will change as a result of future fluctuations in market interest rates. The majority of the Plan's investment assets are non-interest bearing and not subject to interest rate risk. See note 6c for interest rate risk related to underlying securities.

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Financial risks on a unit-of-account basis (continued)

Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to other price risk through its public equity investments and private market investments, including equity in real estate companies, held directly and through pooled investment portfolios. This risk is managed by diversifying investments across asset classes based on criteria established in the SIPP.

As at March 31, 2020, if the pooled investment fund unit and directly held equity prices increased or decreased by 10%, with all other factors remaining constant, net assets available for benefits would have increased or decreased by approximately $227,747 (2019: $221,787).

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into, resulting in a financial loss to the Plan. The majority of the Plan's investments are held in securities that are not subject to credit risk. See note 6c for credit risk related to underlying securities.

Credit exposure exists for members' and employers' contributions receivable and assets directly held by the Plan totalling $2,809 (2019: $2,587), accrued interest $84 (2019: nil), for the derivatives $2,576 (2019: $950), and for the due from sale of investments of $7,226 (2019: $5,814).

c) Financial risks of underlying securities held through pooled investment funds

Pooled investment funds exist for different types of investments, such as short-term investments; bonds; Canadian, U.S. and international equities; mortgages; real estate; private equity; and infrastructure and renewable resources. Examining the risks of the underlying securities contained in pooled investment funds provides additional disclosure to assess the overall financial risks of the plan investments. Viewing the financial risks of underlying securities is an alternative way of disclosing financial risks from the unit-of-account basis in note 6b.These risks are not considered additive to the financial risks already disclosed in note 6b.

Market risks are reduced through asset class diversification, diversification within each asset class and credit quality requirements on investments.

Currency risk

Currency exposure arises from foreign currency denominated investments held directly and from underlying investments held indirectly in pooled investment funds. BCI has currency exposure management programs under which it enters into economic hedges of foreign currency exposure through the use of forward foreign currency contracts.

($ thousands except as otherwise noted)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Financial risks of underlying securities held through pooled investment funds (continued)

The Plan's total currency exposure, the impact of economic hedging activities and its net exposure as at March 31, are as follows:

Fair value of foreign denominated investment holdings (Cdn dollar equivalent)	Total exposure	Economic hedging	Net exposure	% of total
		2020		
United States	$ 685,703	$ 407,124	$ 278,579	56%
Euro countries	110,034	33,336	76,698	16%
Asia-Pacific, excluding Japan	91,534	28,918	62,616	13%
Other Europe	28,500	76	28,424	6%
Other	27,001	-	27,001	5%
Japan	24,255	2,430	21,825	4%
United Kingdom	25,692	26,609	(917)	0%
	$ 992,719	$ 498,493	$ 494,226	100%
		2019		
United States	$ 547,034	$ 214,175	$ 332,859	55%
Asia-Pacific, excluding Japan	121,242	23,320	97,922	16%
Euro countries	97,401	15,565	81,836	13%
Other	41,357	-	41,357	7%
Japan	26,991	483	26,508	4%
Other Europe	26,008	3	26,005	4%
United Kingdom	23,109	19,099	4,010	1%
	$ 883,142	$ 272,645	$ 610,497	100%

The net foreign currency exposure of the Plan's underlying investments represents 22% (2019: 27%) of its total investments.

Interest rate risk

The Plan's pooled investment funds hold interest-bearing financial instruments in short-term investments, bonds and mortgages. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and interest rate swaps, and general diversification by security type and geographic region.

($ thousands except as otherwise noted)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Financial risks of underlying securities held through pooled investment funds (continued)

The terms to contractual maturity of interest-bearing financial instruments held directly and through pooled investment portfolios, as at March 31, are as follows:

Terms to maturity of interest-bearing financial instruments	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Effective yield to maturity
			2020			
Short-term	$ 44,484	$ 6,420	$ -	$ -	$ 50,904	0.43%
Bonds	43,655	261,464	194,520	206,021	705,660	2.30%
Mortgages	42,377	29,865	9,008	-	81,250	3.56%
Debt	-	-	10,211	-	10,211	5.66%
	$ 130,516	$ 297,749	$ 213,739	$ 206,021	$ 848,025	
			2019			
Short-term	$ 62,464	$ 10,811	$ -	$ -	$ 73,275	1.72%
Bonds	29,141	161,407	139,178	147,661	477,387	2.51%
Mortgages	23,483	38,810	10,049	-	72,342	3.10%
Debt	-	-	4,410	-	4,410	6.41%
	$ 115,088	$ 211,028	$ 153,637	$ 147,661	$ 627,414	

As at March 31, 2020, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, the fair value of interest-bearing financial instruments and net assets available for benefits would have decreased or increased by approximately $52,389 (2019: $36,406).

Other price risk

Other price risk associated with the underlying investments held in pooled investment funds is consistent with that described earlier in note 6b, which describes financial risks on a unit-of-account basis.

($ thousands except as otherwise noted)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Financial risks of underlying securities held through pooled investment funds (continued)

Credit risk

The Plan's underlying investment assets held in pooled investment funds attract credit risk. This is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. It is also the risk of losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties, and maximum concentration limits with given counterparties.

Credit risk ratings on financial instruments (short-term investments, bonds, mortgages and debt) held directly and through pooled investment portfolios are as follows:

Credit rating of financial instruments	2020		2019	
AAA/AA	$ 367,903	44%	$ 273,491	44%
A	206,632	24%	168,224	27%
BBB	86,058	10%	46,111	7%
Non-investment grade	87,961	10%	39,042	6%
	748,554	88%	526,868	84%
Unrated	99,471	12%	100,546	16%
	$ 848,025	100%	$ 627,414	100%

The ratings used are defined by Standard & Poor's rating agency. Obligations rated AAA/AA have the highest rating assigned. The lender's capacity to meet its financial commitment on the obligation is very strong. Bonds rated A, BBB or non-investment grade are weaker, with the BBB rating denoting an obligation with adequate protection parameters and a non-investment grade rating denoting major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to the debtor's inadequate capacity to meet its financial commitment on the obligation. Unrated financial instruments consist mainly of mortgages secured by real estate and corporate bonds.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Fair value hierarchy

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are as follows:

Level 1

Inputs that are unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2

Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.

Level 3

Inputs that are not based on observable market data.

($ thousands except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

a) Fair value hierarchy (continued)

Plan investments are carried at fair value in the financial statements. The following table details the classification of the Plan's investments based on the fair value hierarchy as at March 31:

Fair value hierarchy	Level 1	Level 2	Level 3	Total
		2020		
Pooled fund units	$ 44,470	$ 1,463,795	$ 741,468	$ 2,249,733
Directly held equity	-	-	27,735	27,735
Directly held debt	-	-	10,211	10,211
Investments	**$ 44,470**	**$ 1,463,795**	**$ 779,414**	**$ 2,287,679**
Derivatives		**$ (19,145)**		**$ (19,145)**
		2019		
Pooled fund units	$ 62,451	$ 1,600,006	$ 529,749	$ 2,192,206
Directly held equity	-	-	25,667	25,667
Directly held debt	-	-	4,410	4,410
Investments	**$ 62,451**	**$ 1,600,006**	**$ 559,826**	**$ 2,222,283**
Derivatives		**$ (1,471)**		**$ (1,471)**

During 2020 and 2019, there were no significant transfers of investments between levels.

The following table reconciles the Plan's level 3 fair value measurements:

Level 3 fair value hierarchy	Pooled fund units	Direct equity	Direct debt	Total
		2020		
Balance, beginning of year	$ 529,749	$ 25,667	$ 4,410	$ 559,826
Net gain included in investment income	78,014	2,238	389	80,641
Purchases	207,561	14,189	5,448	227,198
Sales	(73,856)	(14,359)	(36)	(88,251)
Balance, end of year	$ 741,468	$ 27,735	$ 10,211	$ 779,414
Total unrealized gain included in investment income	$ 51,867	$ 2,238	$ 392	$ 54,497
		2019		
Balance, beginning of year	$ 391,594	$ 22,781	$ 4,920	$ 419,295
Net gain included in investment income	37,322	2,574	(195)	39,701
Purchases	155,517	1,469	120	157,106
Sales	(54,684)	(1,157)	(435)	(56,276)
Balance, end of year	$ 529,749	$ 25,667	$ 4,410	$ 559,826
Total unrealized gain (loss) included in investment income	$ 13,058	$ 2,158	$ (171)	$ 15,045

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

b) Valuation models

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

BCI uses widely recognized valuation methods for determining the fair value of common and less complex financial instruments such as investments in pooled funds, where fair value is based on the underlying net asset value of the respective pooled fund as determined by the underlying fund manager. Observable prices and model inputs are usually available in the market for listed equity and debt securities, simple derivatives such as forward or future currency contracts, and pooled funds.

The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the financial instrument and is subject to change based on specific events and general conditions in the financial markets.

For more complex financial instruments, such as direct private equity investments held by the Plan, BCI uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market and are derived from market prices or rates, or estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of judgment and estimation in the determination of fair value. BCI's judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows of the financial instrument being valued, determination of the probability of counterparty default and prepayments, and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that BCI believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Plan and the counterparties where appropriate.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

c) Valuation framework

BCI has an established framework with respect to the measurement of fair values of financial instruments. Where possible, for direct private equity investments held by the Plan, external independent valuation specialists are engaged annually to assist in the determination of fair value. In those circumstances where BCI is reliant on the third-party manager for the determination of fair value, BCI reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third-party manager or other sources.

In addition, BCI applies the following specific controls in relation to the determination of fair values:

- Verification of observable pricing inputs
- Appraisal of domestic real estate properties once every 10 to 18 months by accredited independent appraisers
- Analysis and investigation of significant valuation movements
- Review of unobservable inputs and valuation adjustments

When third-party information such as broker quotes or pricing services is used to measure fair value, BCI assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations are appropriate. This includes:

- Verifying that the broker or pricing service is approved by BCI for use in pricing the relevant type of financial instrument
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions
- Understanding how fair value has been determined using quotes when a number of quotes for the same financial instruments have been obtained
- Understanding how prices for similar financial instruments used to measure fair value have been adjusted to reflect the characteristics of the financial instrument subject to measurement

($ thousands except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

d) Significant unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at year-end in measuring financial instruments categorized as level 3 in the fair value hierarchy.

Significant unobservable inputs used in measuring fair value

Description	Fair value	Valuation technique	Unobservable input	Amount / range	Sensitivity to change in significant unobservable input
			2020		
					The estimated fair value would increase if:
Pooled fund units	**$ 741,468**	**Net asset value**	**Net asset value**	**$ 741,468**	**The net asset value increased**
Direct private equity	**$ 20,013**	**Discounted cash flows**	**Discount rate**	**11.6%**	**The discount rate decreased**
Direct private agriculture investments	**$ 7,722**	**Net asset value**	**Net asset value**	**$ 7,722**	**The net asset value increased**
Direct debt	**$ 10,211**	**Discounted cash flows**	**Discount rate**	**4.8% - 17.0%**	**The discount rate decreased**
			2019		
Pooled fund units	$ 529,749	Net asset value	Net asset value	$ 529,749	The net asset value increased
Direct private equity	$ 18,878	Market approach	Multiple of EBITDA*	11.5x	The multiple of EBITDA increased
Direct private agriculture investments	$ 6,789	Net asset value	Net asset value	$ 6,789	The net asset value increased
Direct debt	$ 4,410	Discounted cash flows	Discount rate	12.0% - 17.5%	The discount rate decreased

* Earnings before interest, tax, depreciation and amortization

Net asset value

Net asset value is determined by BCI based on the fair value of assets less liabilities. Such investments are closed funds with significant restrictions on redemptions, and accordingly, BCI is unable to dispose of the pooled fund investment until the maturity, or wind-up and liquidation, of the respective pooled fund. In such cases, it is the Plan’s policy to categorize the pooled fund investment as level 3 within the fair value hierarchy.

($ thousands except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

d) Significant unobservable inputs used in measuring fair value (continued)

Multiple of EBITDA

Enterprise value (EV) represents amounts that market participants would use when pricing direct equity investments. Earnings before interest, tax, depreciation and amortization (EBITDA) multiples are selected from comparable public companies based on geographic location, industry, size, target markets and other factors that BCI management considers to be reasonable. The traded multiples for the comparable companies are determined by dividing the EV of the company by its EBITDA and further discounted for considerations such as lack of marketability and other differences between the comparable peer group and specific company.

Discount rate

Discount rate applied to the expected future cash flows of the direct private equity and direct debt investments. For the discount rates used, the underlying investment manager assesses both the risk premium and the appropriate risk-free rate based on the economic environment in which the investee entity operates. The discount rate is adjusted for such matters as liquidity differences, credit and market factors. The estimated future cash flows are then discounted using the discount rate determined. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the respective investee entity.

e) Effects of unobservable input on fair value measurement

The use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in level 3, changing one or more of the assumptions used for a reasonable alternative assumption could have the following effects on net assets attributable to holders of redeemable units.

Effects of unobservable input on level 3 fair value measurements

	2020		2019	
	Favourable	Unfavourable	Favourable	Unfavourable
Pooled fund units	$ 74,147	$ (74,147)	$ 52,975	$ (52,975)
Direct private equity	1,386	(1,386)	1,185	(1,185)
Direct private agriculture investments	772	(772)	679	(679)
Direct debt	1,021	(1,021)	441	(441)
	$ 77,326	$ (77,326)	$ 55,280	$ (55,280)

The pooled fund units, direct private agriculture investments and direct debt investments were valued based on information received from BCI, the manager of the respective investments. The fair value of these investments fluctuates in response to changes to specific assumptions for these particular investments, as determined by BCI. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of pooled fund units, direct private agriculture investments and direct debt investments have been calculated by adjusting the respective underlying net asset value by 10%.

($ thousands except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

e) Effects of unobservable input on fair value measurement (continued)

For direct private equity investments, BCI engages third-party independent valuators to estimate the fair market value. The valuators produce comprehensive reports for each applicable investment. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of direct investments have been calculated by recalibrating the model values using unobservable inputs based on the upper and lower threshold of the respective investment's range of possible estimates.

f) Financial instruments not measured at fair value

The carrying value of members' contributions receivable, employer's contributions receivable, due from sale of investments, accounts payable, accrued expenses and payable for purchase of investments approximate their fair value given their short-term nature. These financial instruments are classified as level 2 in the fair value hierarchy because, while prices are available, there is no active market for these instruments.

8. INVESTMENT INCOME

Investment Income	2020			2019		
	Income allocation	Change in fair value	Total	Income allocation	Change in fair value	Total
Short-term	$ 899	$ 1,785	$ 2,684	$ 1,464	$ 228	$ 1,692
Bonds	18,551	6,017	24,568	13,499	10,044	23,543
Canadian equities	6,761	(10,554)	(3,793)	5,647	12,671	18,318
U.S. equities	1,490	(5,012)	(3,522)	1,435	8,341	9,776
International equities	11,718	(33,905)	(22,187)	11,959	10,463	22,422
Mortgages	2,280	4,200	6,480	2,242	1,706	3,948
Real estate	21,689	2,884	24,573	6,981	20,446	27,427
Private equity	14,672	30,823	45,495	14,644	(231)	14,413
IRR*	15,994	9,072	25,066	8,536	13,005	21,541
	94,054	5,310	99,364	66,407	76,673	143,080
Directly held derivatives	-	(17,233)	(17,233)	-	(2,933)	(2,933)
	$ 94,054	$ (11,923)	$ 82,131	$ 66,407	$ 73,740	$ 140,147

* Infrastructure and renewable resources

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan as a unit holder, and income from directly held investments. Income allocation is composed of interest, dividends and other investment payments. Change in fair value is composed of realized gains and losses on the disposal of investments and derivatives, and unrealized gains and losses on investments and derivatives held at year-end. All income earned within a pooled investment portfolio is reinvested within the portfolio.

($ thousands except as otherwise noted)

9. CONTRIBUTIONS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2020		
Member contributions				
Regular	$ 16,124	$ 2,696	$ 21	$ 18,841
Past service purchases	170	28	-	198
	16,294	2,724	21	19,039
Employer contributions				
Regular	15,269	2,688	884	18,841
Past service purchases	173	28	-	201
	15,442	2,716	884	19,042
	$ 31,736	$ 5,440	$ 905	$ 38,081
		2019		
Member contributions				
Regular	$ 14,844	$ 2,481	$ 28	$ 17,353
Past service purchases	219	37	-	256
	15,063	2,518	28	17,609
Employer contributions				
Regular	14,125	2,472	756	17,353
Past service purchases	248	40	-	288
	14,373	2,512	756	17,641
	$ 29,436	$ 5,030	$ 784	$ 35,250

Member and employer contributions are as defined under the pension plan rules. Members' past service purchases are voluntary contributions.

($ thousands except as otherwise noted)

10. BENEFITS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2020		
Regular pension benefits	$ 52,866	$ -	$ 817	$ 53,683
Indexing – regular pension benefits	7,905	-	79	7,984
Termination and refund benefits	885	1,039	-	1,924
Death benefit payments	1,623	644	-	2,267
	$ 63,279	$ 1,683	$ 896	$ 65,858
		2019		
Regular pension benefits	$ 49,239	$ -	$ 711	$ 49,950
Indexing – regular pension benefits	7,054	-	63	7,117
Termination and refund benefits	1,387	1,228	-	2,615
Death benefit payments	1,254	684	-	1,938
	$ 58,934	$ 1,912	$ 774	$ 61,620

11. INVESTMENT AND ADMINISTRATION COSTS

	2020	2019
Investment management	$ 3,838	$ 3,558
Benefit administration	1,054	1,008
Actuarial	90	122
Audit	28	27
Pension workshops for members	41	28
Professional services	8	3
Board remuneration and expenses	6	6
	$ 5,065	$ 4,752

Investment management costs represent amounts charged to recover internal and external management costs incurred by BCI, except those external management fees related to investments managed by an underlying external manager, where management fees are embedded in the net assets of the respective investment. Underlying external investment fees of $4,661 (2019: $2,428) were netted against investment income.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by Pension Corporation. These costs are approved by WorkSafeBC.

Separate from the Plan, WorkSafeBC pays directly for the medical plan and extended health care premiums for retired members and their dependants. For the year ended March 31, 2020, this amounted to $3,454 (2019: $3,505).

($ thousands except as otherwise noted)

12. ACCOUNT TRANSFERS

	2020		2019	
	Basic account	Inflation adjustment account	Basic account	Inflation adjustment account
Indexing supplements	$ 12,361	$ (12,361)	$ 13,214	$ (13,214)
Indexing of deferred pensions	504	(504)	611	(611)
	12,865	(12,865)	13,825	(13,825)

The IAA is a separate account maintained for funding current and future cost-of-living adjustments. The IAA is funded through a portion of ongoing employer and member contributions, and investment income earned.

Cost-of-living adjusted pension payments are made from the Basic Account. Each year, if members' pension payments are adjusted for the current cost-of-living adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current cost-of-living adjustment. As at January 1, 2020, retired members received a cost-of-living adjustment of 1.9% (2019: 2.2%).

When a deferred pension commences, the present value of the cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $6,182 (2019: $5,558) of the current IAA balance is for cost-of-living adjustments already granted for deferred pensions but not yet transferred to the Basic Account.

13. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account funds certain pension benefits that exceed the *Income Tax Act* limits for registered pension plans. The Supplemental Benefits Account is funded from current contributions that would otherwise be basic employer and employee contributions.

14. COMMITMENTS

The Plan participates in private equity, international real estate, mortgages, and infrastructure and renewable resource pools. As at March 31, 2020, the Plan's share of commitments for future investment contracts in these pools over the next several years is approximately $358,436 (2019: $290,673).

15. CAPITAL DISCLOSURES

Capital is defined as the funded status (surplus or deficit) of the Plan as determined by the actuary. The Plan's objective for managing capital is to ensure that the assets of the Plan are invested prudently and effectively, and with contributions adequate to meet the obligations of the Plan. Management of the Plan's funded status is achieved by adjusting member and employer contribution rates through implementation of the SIPP, which affects the earnings of the Plan, and, in the case of the IAA, by changing the benefits paid. The investment performance of the plan assets is reviewed by the Pension Committee on a periodic basis and compared to relevant industry benchmarks. Benefit entitlement is based on the pension plan rules. Funding deficits must be funded over a period not to exceed 15 years. The Plan is also subject to solvency funding requirements. A solvency deficiency must be funded over a period not to exceed five years.

An actuarial valuation must be prepared at least once every three years. The latest actuarial valuation for funding purposes was prepared as at March 31, 2017, and has two components: the basic account non-indexed benefits and, by considering the valuation of the entire Plan, the non-guaranteed IAA. The next full actuarial valuation will be carried out as at March 31, 2020, with the results included in the March 31, 2021 financial statements.

16. PLAN OPERATIONS

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation continues and remains dynamic with various cities and countries around the world responding in different ways to address the outbreak. As a result of the COVID-19 outbreak, global financial markets have experienced significant volatility. Given the extent of the crisis, it is difficult to estimate the ultimate impact or duration of the volatility on the Plan.

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This publication is produced by BC Pension Corporation on behalf of the WorkSafeBC Pension Plan.
If you have questions about the information contained in this report, please contact:

Toll-free (Canada/U.S.): 1-888-440-0111 Mail: WorkSafeBC Pension Plan, PO Box 9460, Victoria BC V8W 9V8

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