

**REPORT OF THE
SUPERINTENDENT OF PENSIONS
ON THE ADMINISTRATION OF THE
PENSION BENEFITS ACT
FOR THE YEAR ENDING
MARCH 31, 2011**

September 30, 2011

The Honourable Marilyn More
Minister of Labour and Advanced Education
P.O. Box 697
Halifax, NS B3J 2T8

Dear Minister:

Pursuant to the requirements of Section 94 of the *Pension Benefits Act*, I have the honour to submit herewith the Annual Report of the Pension Regulation Division for the fiscal year ended March 31, 2011.

Respectfully submitted,



Nancy MacNeill Smith
Superintendent of Pensions

**THIRTY-FOURTH ANNUAL REPORT ON THE
ADMINISTRATION OF THE *PENSION BENEFITS ACT*
FOR THE PERIOD ENDED MARCH 31, 2011**

INTRODUCTION

In accordance with Section 94 of the *Pension Benefits Act* (RSNS, 1989, ch. 340), the Superintendent of Pensions is required to report annually to the Minister. This Report covers the affairs and transactions of the fiscal year 2010 – 2011.

The *Pension Benefits Act* governs employer-sponsored pension plans established in respect of Nova Scotia employees. It does not apply to employees engaged in work that is subject to federal jurisdiction, nor does it apply to the pension plans established for provincial public servants, teachers, judges, members of the legislature, or Sydney Steel Corporation.

The main objective of the *Pension Benefits Act* is to safeguard employee entitlements to benefits promised under pension plans. This is accomplished through the establishment of minimum funding standards and minimum benefit standards in respect of eligibility requirements, vesting and locking-in, employer contributions, transfer rights, spousal benefits, prohibitions against sex discrimination and disclosure of information.

The Superintendent of Pensions, Pension Regulation Division, is responsible for the administration of the *Pension Benefits Act*.

PENSION BENEFITS STANDARDS LEGISLATION

In addition to Nova Scotia, pension benefits standards legislation has been enacted by the federal government and all other provincial governments except for Prince Edward Island.

The representatives of those authorities that have pension legislation meet on a continuing basis to discuss changes in the pension field and means of dealing with problem areas. Representatives of the various authorities are members of the Canadian Association of Pension Supervisory Authorities (CAPSA). CAPSA's mission is to facilitate an efficient and effective pension regulatory system in Canada.

During the year under review, CAPSA met in Winnipeg in September 2010 and in Toronto in March 2011. CAPSA members also participated in two conference call meetings held in June 2010 and January 2011. Various sub-committees of CAPSA met during the year. A summary of CAPSA's activities is as follows:

- CAPSA continued its initiative relating to the Agreement Respecting Multi-Jurisdictional Pension Plans (the Agreement). The Agreement is an important initiative which provides a clear framework for the administration and regulation of pension plans that have members in more than one jurisdiction. CAPSA made some minor modifications to the proposed agreement and accompanying Commentary Guide, and finalized the administrative procedures for the implementation of the Agreement. Staff of the Division have completed the training developed by CAPSA on the Agreement. Ontario and Quebec have adopted the Agreement effective July 1, 2011.
- CAPSA determined that it was necessary to clarify the types of documents that may be used as fund holder agreements and the roles and responsibilities of the key players in a pension plan with respect to fund holder arrangements. Draft guidelines were prepared by the Fund Holder Arrangements Committee in consultation with an Industry Advisory Group. The draft guidelines were released for public consultation in May 2010, and a number of revisions were made following the consultation. The final *Guideline No. 5: Guideline on Fund Holder Arrangements* was released on March 1, 2011.
- The Prudent Investment and Funding Committee developed a draft guideline on pension plan prudent investment practices and a draft guideline on pension plan funding policy. On March 1, 2011, the draft Guideline on Prudent Investment Practices, the companion Self-Assessment Questionnaire and the draft Pension Plan Funding Policy were released for public consultation. The consultation period ends June 1, 2011.
- The Defined Contribution Plan Committee presented to CAPSA the results of its review of current and alternative approaches to regulating and supervising defined contribution pension plans. The Committee will work with its Industry Working Group in the development of a draft guideline for public consultation.
- The Actuarial Standards Committee has agreed to provide guidance for margins for adverse deviations from assumptions used in going concern actuarial valuations, and has asked for support from the Canadian Institute of Actuaries in providing that guidance.

The Joint Forum of Financial Market Regulators addresses inter-jurisdictional and cross-sectoral pensions, insurance and securities issues across Canada. CAPSA members are represented on the Joint Forum. The status of the Joint Forum initiatives at the end of the year is as follows:

- The Consumer Awareness and Engagement Committee finalized its document *Seeking Compensation, a Guide for Consumers*, a publication for consumers of financial products and services. The publication will be posted on the web sites of the Joint Forum, CAPSA, and other organizations to whom consumers turn for information.
- The Intermediary Regulation Committee's work focused on intermediaries who sell individual variable insurance contracts and mutual funds. The main area of concern identified by the Committee was the quality of compliance monitoring by insurance companies of intermediaries. The final report of the Committee will be posted on the Joint Forum web site.
- The goal of the Product Disclosure and Regulation initiative is to examine the responsibilities of investment product manufacturers, intermediaries and consumers in ensuring that consumers are offered suitable products and are able to make informed decisions. The Committee will engage in dialogue with key stakeholders for the purpose of assessing the best and most effective way of gathering data.
- The Regulatory Enforcement Information Sharing Initiative was established to develop mechanisms to allow for more effective sharing of information on regulatory enforcement issues and actions across sectors and jurisdictions. At the same time, the Canadian Council of Insurance Regulators (CCIR) is exploring the feasibility of establishing a centralized source of information on disciplinary decisions by insurance regulators. The Joint Forum will receive a progress report on the work of the CCIR before proceeding further.
- The review of Capital Accumulation Plan Guidelines was completed in the spring of 2009. The Joint Forum concluded that no changes were needed.

AGREEMENTS WITH OTHER AUTHORITIES

Agreements with the Government of Canada, and other provinces having pension legislation, provide for the reciprocal registration, audit and inspection of pension plans. Under these agreements, a pension plan subject to the legislation of more than one authority is supervised by the jurisdiction which has the greatest number of plan members. The regulatory body in the jurisdiction of registration applies the rules of other jurisdictions, where applicable. A new reciprocal agreement to replace the original agreement which has been in place since 1968 has been finalized. Ontario and Quebec implemented the Agreement effective July 1, 2011.

MEMORANDUM OF UNDERSTANDING

Statistics Canada and the Province have a Memorandum of Understanding respecting the employer pension plans under the custody and control of the Superintendent of Pensions. Under that Memorandum, information compiled by the Superintendent is submitted to Statistics Canada for the development of integrated social statistics for Canada.

The Province also has a Memorandum of Understanding with the Canada Revenue Agency (CRA) to harmonize the exchange of data and information respecting employer pension plans under the control of the Superintendent. Data from a joint Annual Information Return on pension plans is collected by the Superintendent and shared with CRA.

LEGISLATIVE / REGULATORY REVIEW

On September 14, 2010, the Pension Benefits Regulations were amended to provide additional temporary solvency funding relief for municipality, university, and specified multi-employer pension plans.

On December 20, 2010, the Pension Benefits Regulations were amended to permit the Nova Scotia School Board Association to permit a decrease in employee contributions during the period of temporary solvency funding relief that had been elected.

The changes give plan sponsors more flexibility in managing the solvency funding of their plans while continuing to safeguard the members' promised benefits.

Effective April 1, 2011, fees prescribed under the *Pension Benefits Act* have been increased by two per cent by Order in Council 2011-110 dated March 25, 2011.

OPERATION OF THE DIVISION

As at March 31, 2011, the Division was responsible for the supervision of 496 pension plans. Nine applications for registration were processed during the fiscal year. Five of the filed plans were in the process of being wound up.

SUMMARY OF PENSION PLANS APPROVED, TRANSFERRED, OR TERMINATED TO MARCH 31, 2011

Active Plans On File as at March 31, 2010	515
New Plans Filed	9
Plans Terminated	-15
Plans Transferred To Other Jurisdictions	-1
Active Plans On File as at March 31, 2011	508
Deduct: Plans In Process of Registration	-12
Registered Plans	496

SUMMARY OF PERMITS/APPROVALS OF DOCUMENTS RECIEVED TO MARCH 31, 2011

Registration of Amendment to Plan	78
New Pension Plan Registrations	9
LIF Registrations	6
Approvals only (Policy, Trust Agreements, other documents not requiring registration)	23

The following table shows that during the period under review, 15 pension plans were terminated covering 320 employees. Eighty four (84) of these employees were members of plans that merged with another plan. Ninety Three (93) of these employees were with plans that were replaced by a group RRSP or individual annuity. There were two partial plan terminations affecting 1,414 members due to a business takeover and a plan merger. There was one plan which was transferred to Newfoundland.

TERMINATED PENSION PLANS

Reason for Termination	# of Plans	# of Active Members
No members left	4	0
No reason given	3	30
Merged with another	2	84
Replaced with group RRSP/annuity	2	93
Company dissolved or sold	3	113
Plan registration revoked/rescinded	1	0
TOTAL	15	320

CONTRIBUTIONS

In accordance with Section 27(1) of the *Pension Benefits Act*, the administrator of a pension plan registered in Nova Scotia is required to file an Annual Information Return (AIR) outlining the contributions made to the pension plan and changes in plan membership. The AIR must be filed within 6 months following the plan year end.

Contributions and membership data from filed Annual Information Returns are compiled and forwarded to Statistics Canada for inclusion in its Annual Report on pension plans in Canada. Information from the Return is also forwarded to Canada Revenue Agency.

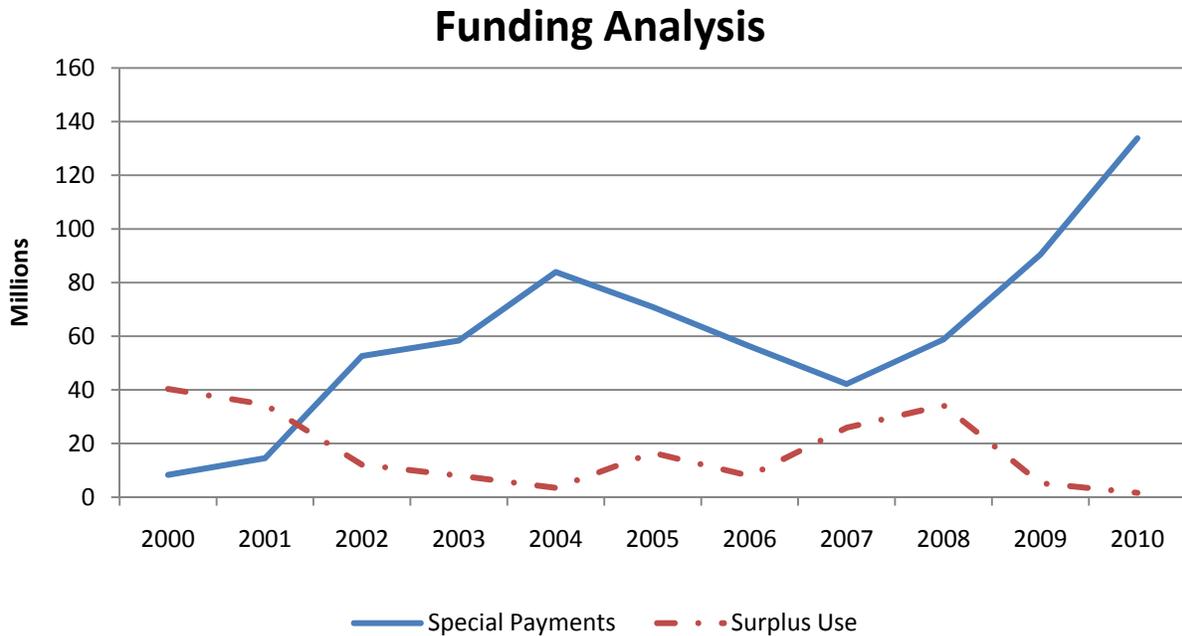
Based on the Returns filed with the Division as of September 16, 2011, total contributions for 2010 were \$682.12 million, up from \$612.9 million in 2009.

The employee and employer contributions to pension plans under supervision for the year ending December 31, 2010, were as follows:

2010 CONTRIBUTIONS

Employee Required Contributions	\$215,116,712	
Employee Voluntary Contributions	<u>\$14,381,101</u>	
TOTAL EMPLOYEE CONTRIBUTIONS		\$229,497,813
Actual Employer Current Service Contributions	\$317,176,116	
Employer Contributions made from Surplus	<u>\$1,620,143</u>	
TOTAL EMPLOYER CURRENT SERVICE CONTRIBUTIONS	<u>\$318,796,259</u>	
Employer Special Payments	<u>\$133,827,363</u>	
TOTAL EMPLOYER CONTRIBUTIONS		<u>\$452,623,622</u>
TOTAL CONTRIBUTIONS		\$682,121,435

Employer contributions made from surplus were \$1.6 million, down from \$5.2 million reported for 2009. Employer special payments were \$133.8 million, up from the \$90.4 million reported for 2009. An analysis of the special payments made by employers, and of the use of surplus to fund benefits, is as follows:



SECURITY OF RETIREMENT INCOME

The measure used to determine the security of retirement income for members of private and municipal government pension plans is that of the solvency of the plan.

Defined contribution pension plans are solvent by the very nature of the plans. However, the risk to defined contribution plans is that of non-remittance of contributions to the pension fund. Accordingly, the division followed up on 59 notices of non-remittance issued by the fund holder in the fiscal year, within an average of 7 business days, to ensure the overdue funds were remitted.

The solvency of defined benefit plans is measured through solvency valuations performed by an actuary. If defined benefit plans are not fully solvent, there must be a strategy in place to achieve full solvency funding within 5 years (with exceptions for municipalities, universities and specified multi-employer pension plans, and for plans where members have consented to 10 years for solvency funding for deficiencies reported prior to January 2, 2011).

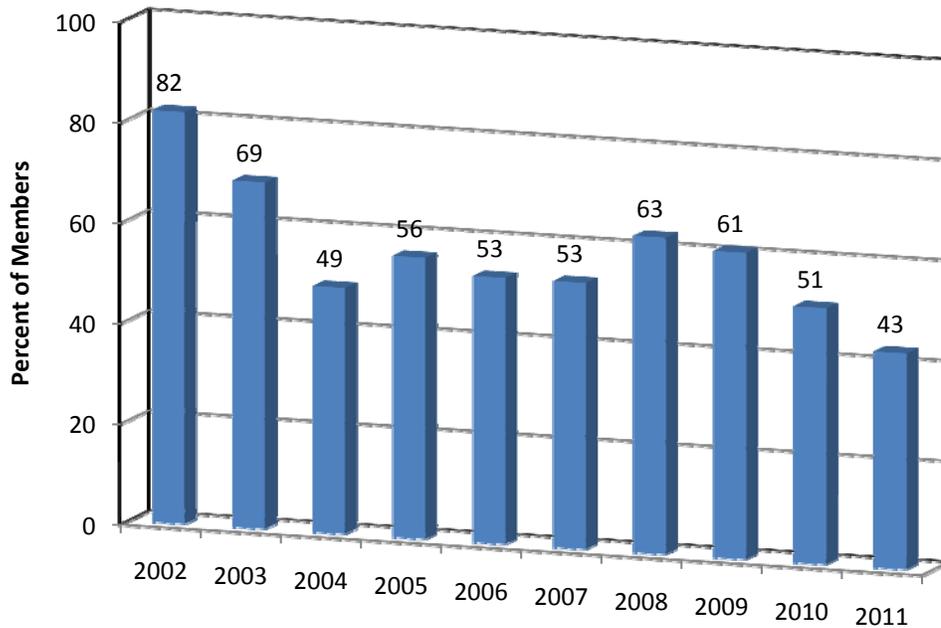
In 2004 the Government removed the requirement to include the liability for “grow-in” benefits in a solvency valuation. “Grow-in” benefits are the right to receive subsidized early retirement benefits, provided under some plans, when a plan is wound up, even though the members have not met eligibility requirements for receipt of these benefits. The removal of the requirement to fund ‘grow-in benefits” reduced solvency liabilities, thus improving the solvency position of some defined benefit plans. However, grow-in benefits must be funded by an employer when a plan actually winds up.

The solvency funding relief provided to universities gives them 15 years to fund any solvency deficiency arising prior to January 1, 2006. Municipalities are only required to fund to 85% solvency until August 30, 2016. Specified multi-employer pension plans can make one election prior to January 1, 2010 to file an actuarial valuation report in which solvency deficiencies do not have to be funded for the following 3 years. All plans, with member consent, can amortize the solvency deficiency determined in a valuation report prepared before January 2, 2011 over 10 years instead of 5 years. These regulatory changes will result in a delay in improvement of the solvency position of these plans.

As at March 31, 2011, five specified multi-employer pension plans, five municipality pension plans, six university pension plans and ten other private plans had elected to take advantage of the solvency funding relief provided. These plans provided pension coverage for 22,485 members.

The following table shows the change in the percentage of defined benefit pension plan members in fully solvent plans from 2001 to 2010.

Percent of Members in Fully Solvent Defined Benefit Plans



The following is a breakdown of membership in defined benefit pension plans in 2011:

- 43% of members are in plans that are 100% solvent,
- 23% are in plans that are between 90% and 99% solvent,
- 28.5% are in plans that are between 80% and 89% solvent,
- 5% are in plans that are between 70% and 79% solvent, and
- 0.5% are in plans that are less than 70% solvent.

FINANCIAL HARDSHIP UNLOCKING

Effective July 1, 2007, the *Pension Benefits Act* permits unlocking of pension benefits transferred to a Locked-in Retirement Arrangement or a Life Income Fund for reasons of financial hardship. The unlocking criteria are for:

- mortgage arrears where the owner is facing foreclosure;
- medical expenses not paid under another program; and
- income below \$19,320 (for 2011).

The following statistics relate to the unlocking program as at March 31, 2011.

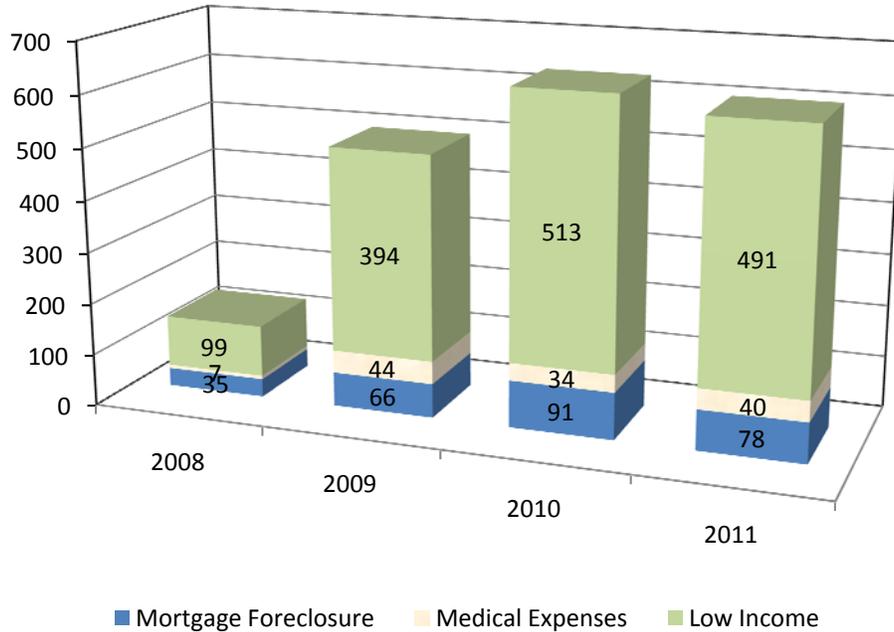
Funds Unlocked in the Year Ending March 31, 2011

Reason of Financial Hardship	Number of Applications Received	Number of Applications Approved	Dollar Value of Funds Released	Average Release per Successful Application
Mortgage Foreclosure	78	39	\$224,443	\$5,755
Medical Expenses	40	21	\$101,516	\$4,834
Low Income	491	315	\$2,721,962	\$8,641
Total	609	375	\$3,047,921	\$8,128

Total Funds Un-locked since July 1, 2007 (program inception)

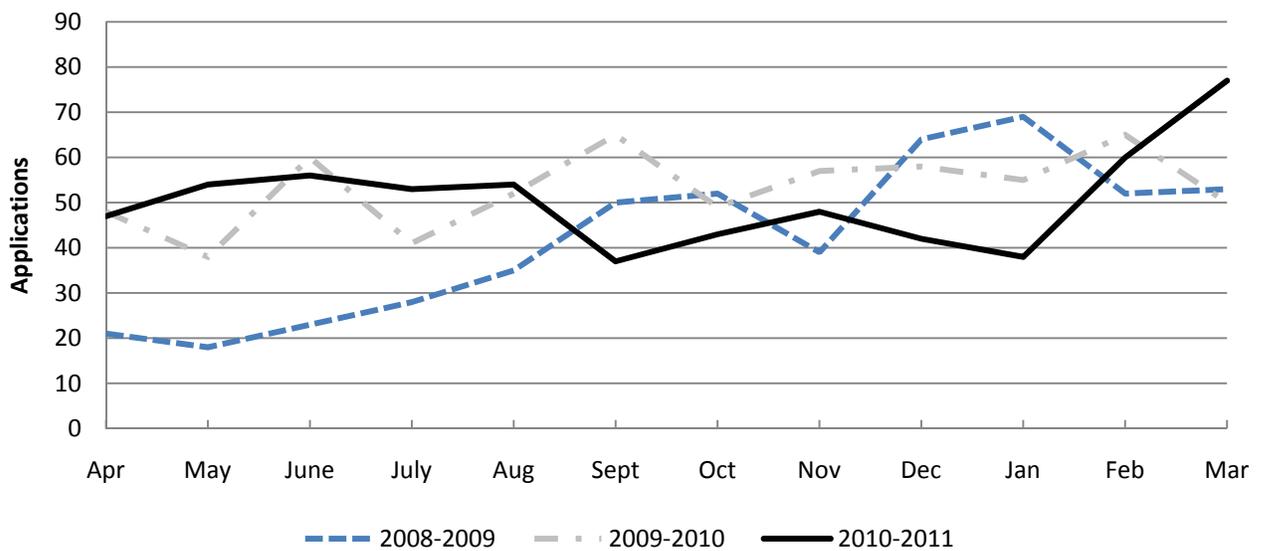
Reason of Financial Hardship	Number of Applications Received	Number of Applications Approved	Dollar Value of Funds Released	Average Release per Successful Application
Mortgage Foreclosure	270	138	\$727,429	\$5,271
Medical Expenses	125	61	\$398,800	\$6,538
Low Income	1,497	938	\$8,138,663	\$8,677
Total	1,892	1,137	\$9,264,892	\$8,149

Number of Applications Received Under the Financial Hardship Program Fiscal years ending March 31

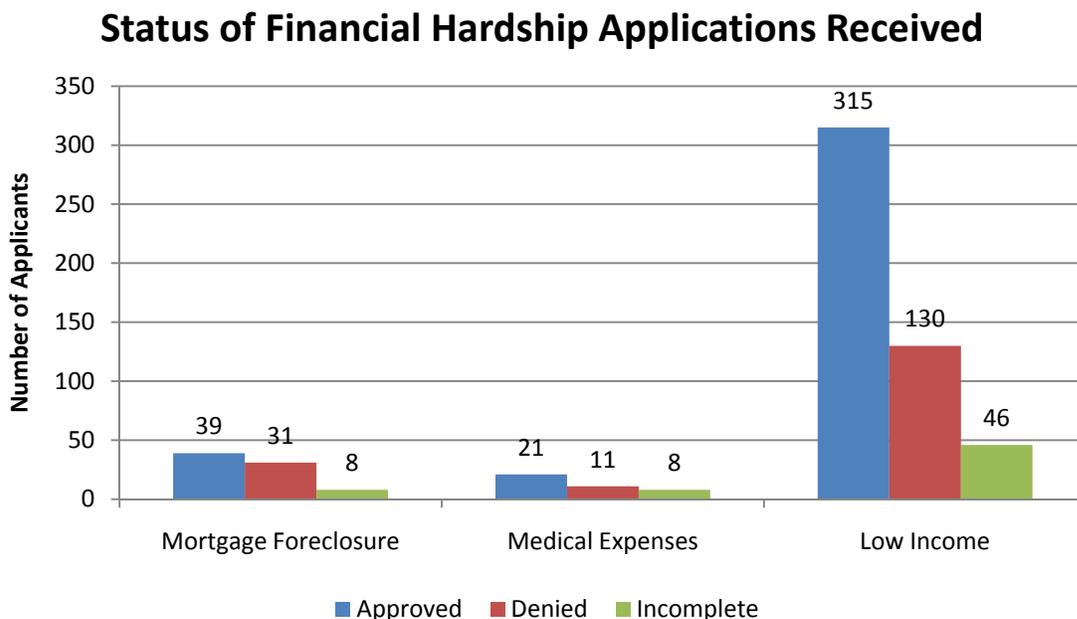


The following graph illustrates the number of financial hardship applications received per month over the last three fiscal years.

Financial Hardship Applications Received by Month



The following graph shows the status of applications received per reason during 2010/2011. Incomplete means that a letter requesting further information was sent to an applicant, but no response was received.



In total, 609 applications were received, 375 were approved, 172 denied, and 62 were incomplete.

Reasons for denial of applications include:

- Funds not under Nova Scotia jurisdiction;
- Funds still in a registered pension plan;
- Applicant's arrears are on a second mortgage with no threat of foreclosure, or for rent which is not a mortgage arrears criteria;
- Earnings are too high to qualify for low income criteria.

REVENUE AND EXPENDITURE FOR THE YEAR ENDED MARCH 31, 2011

Fees are payable in respect of all Applications for Registration of pension plans and for each Annual Information Return filed on a plan. The Registration and Annual Information filing fee is \$5.25 for each member of the pension plan in Nova Scotia, or in a designated province, with a minimum fee of \$104.96. The maximum fee is \$7,871.78. A late filing fee is charged in respect of Annual Information Returns submitted more than six months after the end of the fiscal year of the pension plan. The additional fee is 50% of the regular fee.

The fee payable for registration by a financial institution of a specimen Life Income Fund is \$1,049.57. A fee of \$262.39 is charged for amendments to Life Income Funds specimen contracts.

The fee payable in respect of an approved application for unlocking pension benefits held in a Locked-in Retirement Account or a Life Income Fund is \$104.96.

The revenue derived from fees charged in respect of Applications for Registration, Annual Information Returns, Life Income Funds, and financial hardship unlocking amounted to \$353,578.

Direct operating costs for the Division for the fiscal year 2010/2011 were \$312,914. Note that overhead costs are not included in direct operating costs.

APPENDIX A

STATISTICAL INFORMATION

The information provided in this appendix is based on statistical information obtained from Statistics Canada's database on pension plans in Canada as at January 1st, 2010. As of this date, 107,478 members participated in 496 pension plans regulated by the Division.

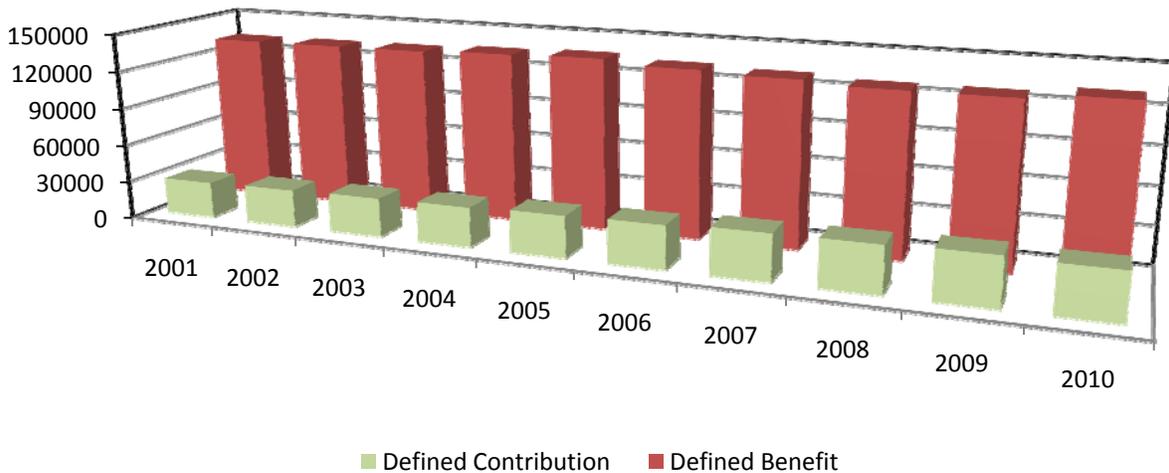
TYPES OF PLANS

There are two main types of pension plans; a defined contribution plan or a defined benefit plan. Under a defined contribution plan, contributions required by the employer and/or employees are clearly defined. The resulting pension benefit for each employee is whatever can be provided or purchased by the accumulated contributions and investment earnings.

A defined benefit plan contains a specific formula as to the amount of pension each member is to receive. Effectively, the employer/administrator guarantees to provide this level of benefits and it is necessary for an actuary to estimate periodically how large the fund should be and how much should be contributed to ensure adequate funding of the benefits.

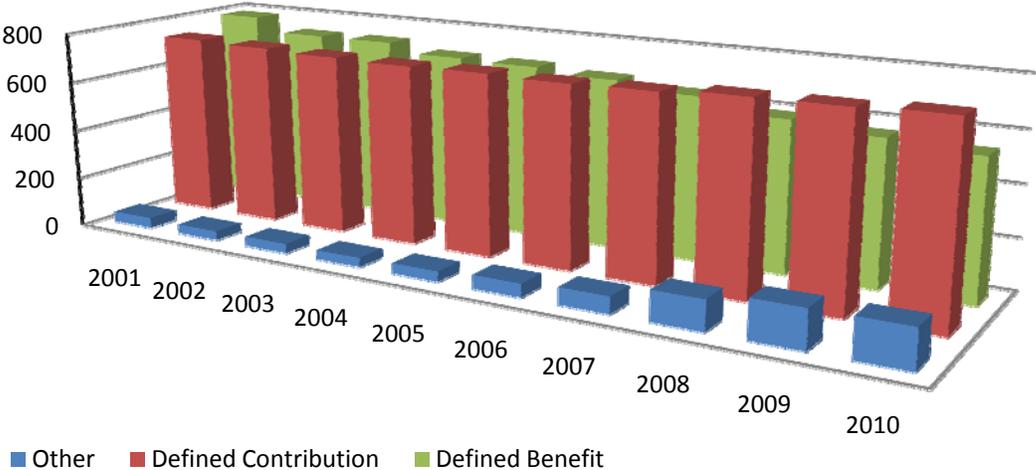
As of January 1, 2010, there were 36,588 Nova Scotia members participating in defined contribution plans, 131,439 participating in defined benefit plans and 8,920 in other types of composite/combination plans.

Nova Scotia Membership in Pension Plans



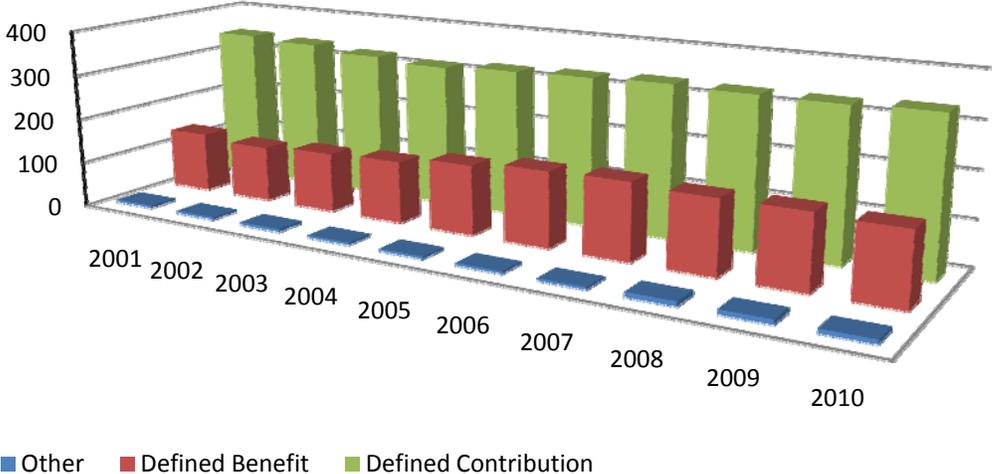
Membership in pension plans other than defined benefit and defined contribution plans is insignificant and has not been included in the chart on page 12. Participation in defined contribution plans and other combination plans increased while participation in defined benefit plans showed a slight decrease between 2009 and 2010.

Plans with Nova Scotia Members



The number of defined benefit pension plans across Canada with Nova Scotia members declined 31% from 2000 to 2010 to 541 plans. The number of defined contribution plans with Nova Scotia members increased by 2.2% to 748 plans.

Plans Registered in Nova Scotia



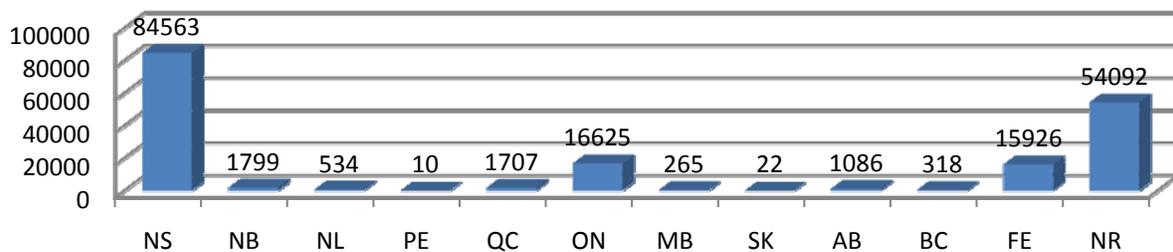
Going against the national trend, the number of defined contribution pension plans registered with Nova Scotia declined 3% between 2001 and 2010 to 332 plans. Defined benefit pension plans increased by 16.5% from 2001 to 2010 to 155 plans. These plans were established primarily for shareholders/owners of companies.

JURISDICTION OF PLAN MEMBERSHIP AND MEMBERSHIP COVERAGE

As of January 1, 2010, there were 1,438 pension plans in all jurisdictions covering 176,947 Nova Scotia Employees. The Division supervised 496 plans covering 107,478 members; 22,915 of these members were employed in other provinces. FE refers to Federal plans and NR means plans that are not registered.

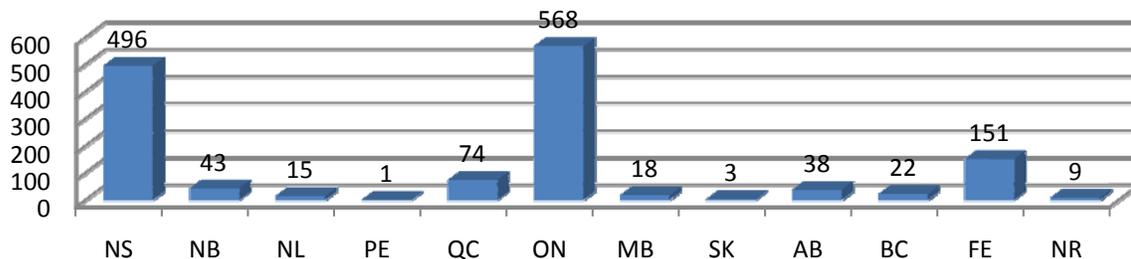
NS Members in Plans in Canada by Jurisdiction

(Source: Statistics Canada - (Table 81) January 1, 2010)



Pension Plans in Canada with NS Members

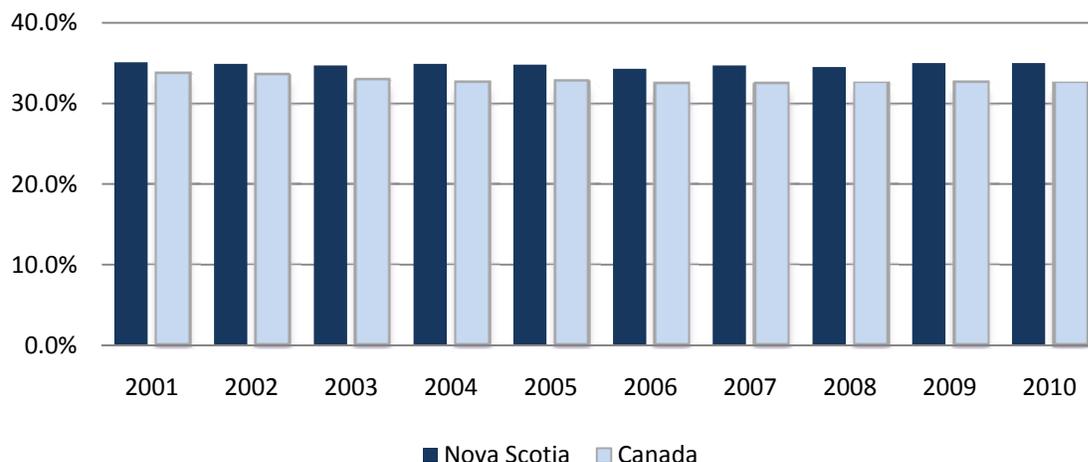
(Source: Statistics Canada - (Table 81) January 1, 2010)



Plans that are not registered include the provincial plans for Civil Servants, Teachers, Judges, Members of the Legislature, and employees of Sydney Steel, as well as federal plans for the Canadian Forces, the RCMP, the Federal Public Service and the Members of Parliament.

Participation in Pension Plans

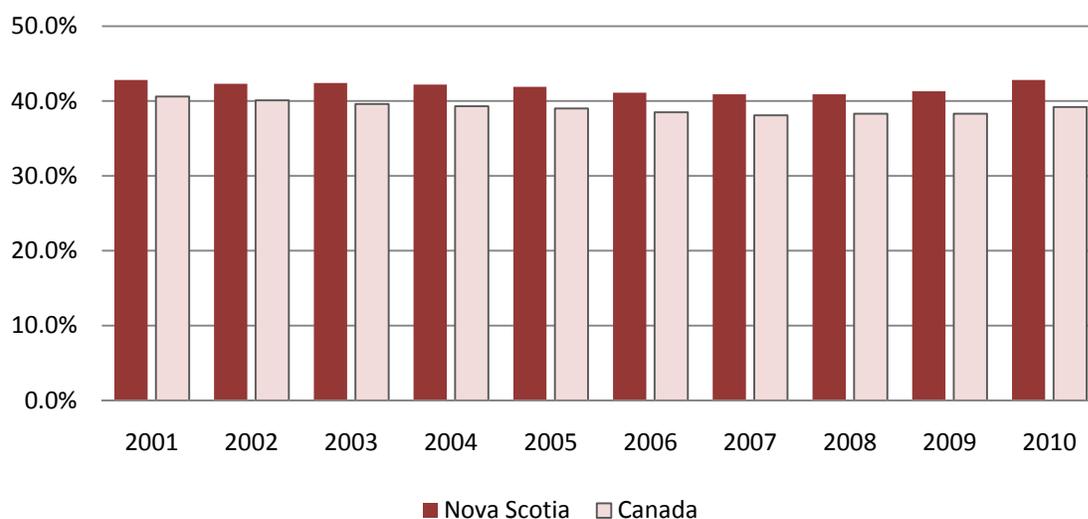
Members as a % of Total Labour Force



As shown in these two graphs, participation of Nova Scotians in pension plans has not varied significantly since 2001. Currently in Nova Scotia, 35% of the total labour force and 42.8% of employed paid workers participate in pension plans. These numbers for Canada as a whole are 32.6% and 39.2% respectively. Note that with respect to labour force coverage, pension plan membership is potentially available to paid workers only; self-employed owners of unincorporated businesses, unpaid family workers and the unemployed are not eligible for membership.

Participation in Pension Plans

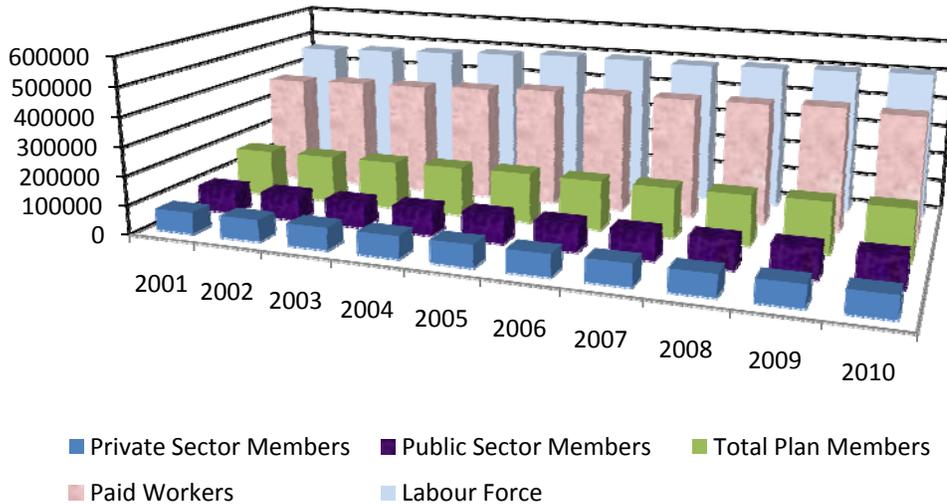
Members as a % of Employed Paid Workers



Nova Scotia has a higher than average proportion of paid workers in the public sector, where pension coverage is very high. Currently 58.2% of Nova Scotia pension plan members are employed in the public sector, as illustrated in the following chart:

Nova Scotia

(Source: Statistics Canada (Table 5 membership) Jan. 1, 2010)

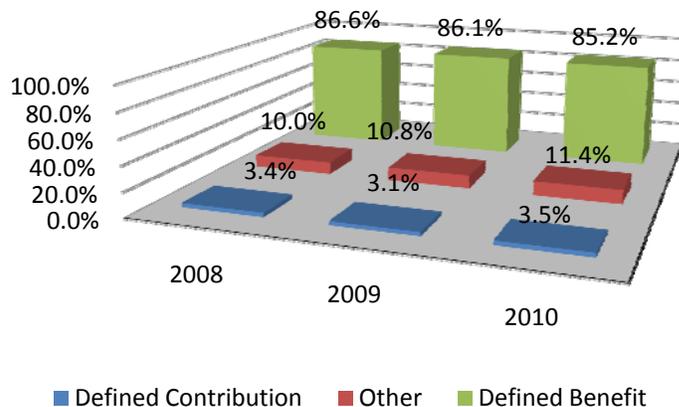


During the period 2001 to 2010, the number of pension plan members in Nova Scotia in the private sector grew 1.07%, compared with a 15.88% increase in the public sector.

ASSET ANALYSIS

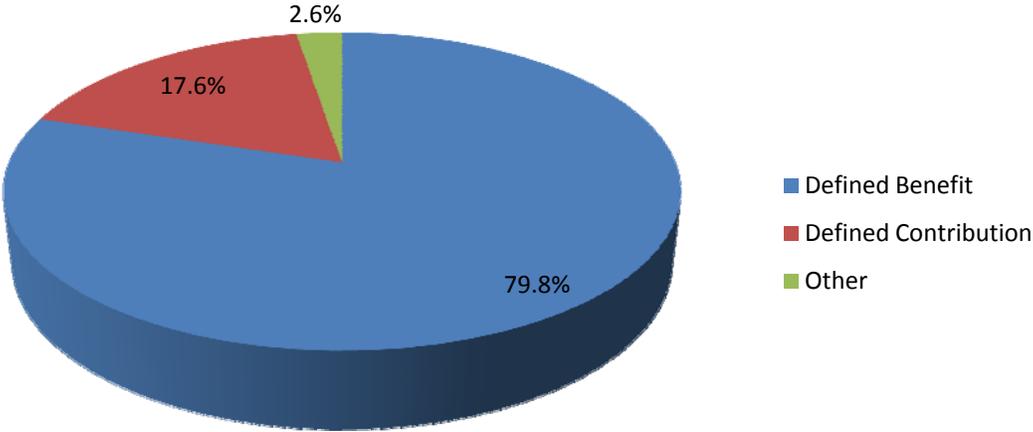
As of January 1, 2010, defined benefit plans with Nova Scotia members held \$330.2 billion in assets. Defined contribution plans held \$13.4 billion and composite or combination pension plans held \$43.8 billion.

Plans with Nova Scotia Members - Assets



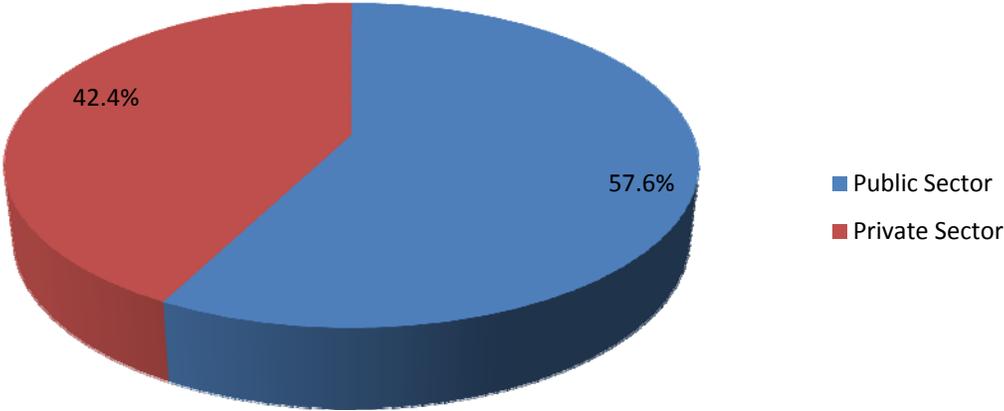
A total of \$9.9 billion was held in pension plans registered in Nova Scotia as at January 1, 2010. The majority, \$7.9 billion, was held in defined benefit plans, with \$1.7 billion in defined contribution plans and \$252 million in composite/combo plans.

Plans Registered in Nova Scotia Asset Distribution



For pension plans with members employed in Nova Scotia, public sector pension plans' assets were \$223.3 billion and private sector plans' assets were \$164.2 billion.

Public and Private Sector Plans Asset Distribution



Of the \$387.6 billion in assets held in pension plans with Nova Scotia members as at January 1, 2010, a significant portion of funds was held in non-registered plans (see the definition of non-registered plans on page 15). Plans under the federal and Ontario jurisdictions with Nova Scotia members also held significant assets

Assets for Plans with NS Members

