REPORT OF THE SUPERINTENDENT OF PENSIONS ON THE ADMINISTRATION OF THE *PENSION BENEFITS ACT* FOR THE YEAR ENDING MARCH 31, 2017

NOVA SCOTIA

Finance and Treasury Board
Pension Regulation Division

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November 3, 2017

The Honourable Karen Casey
Minister of Finance and Treasury Board
1723 Hollis Street 7th Floor
HALIFAX NS B3J 1V9

Dear Minister:

Pursuant to the requirements of Section 120 of the *Pension Benefits Act*, I have the honour to submit herewith the Annual Report of the Pension Regulation Division for the fiscal year ending March 31, 2017.

Respectfully submitted,

Paula Boyd

Paula Boyd
Superintendent of Pensions

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INTRODUCTION

In accordance with Section 120 of the *Pension Benefits Act* (S.N.S. 2011, c. 41), the Superintendent of Pensions is required to report annually to the Minister. This report covers the affairs and transactions of the fiscal year commencing on April 1, 2016 and ending March 31, 2017.

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 Public Service Superannuation Pension Plan and Nova Scotia pension plans established for teachers, judges, members of the Nova Scotia legislature, or Sydney Steel Corporation.

The main objective of the *Pension Benefits Act* is to oversee administration of the benefits promised to members 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 *NewPage Port Hawkesbury Pension Plans Act* was enacted in May 2012. It gives the administrator of the four NewPage Port Hawkesbury pension plans permission to extend the wind up of the plans to July 1, 2023. Under the regulations established for the Act, members, including retired members, elected to participate in either an immediate wind-up or an extended wind-up of their pension plan. The four plans are subject to the *NewPage Port Hawkesbury Plans Act* and the *Pension Benefits Act* during the extended wind-up period.

The Superintendent of Pensions, Pension Regulation Division, is responsible for the administration of the *Pension Benefits Act* and the *NewPage Port Hawkesbury Pension Plans 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 Montreal in April 2016 and in Edmonton in October 2016. CAPSA members also participated in two conference call meetings held in June 2016 and January 2017. Various sub-committees of CAPSA met during the year. A summary of CAPSA's activities is as follows:

- CAPSA members finalized the CAPSA Strategic Plan for the period 2016-2019.
- CAPSA began work on a consultation paper on proposed changes to funding and asset allocation rules under a future agreement respecting multi-jurisdictional pension plans.
- CAPSA struck a Funding Review Committee to develop recommendations for a common regulatory approach to funding benefits offered by registered pension plans (other than DC plans).
- CAPSA established a Defined Contribution Plans Committee to review and update Guideline No. 8 – Defined Contribution Pension Plans guideline with a focus on the pay-out phase.
- CAPSA established a committee to update Guideline No. 2 – Electronic Communication in the Pension Industry and a committee to provide guidance to plan administrators on finding missing members.
- CAPSA, along with an industry working group, completed a review on CAPSA's guidelines on pension plan governance and published the revised CAPSA Guideline No. 4: Pension Plan Governance, the related Pension Plan Administrator Governance Self-Assessment Questionnaire and the Frequently Asked Questions (FAQ).

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.

Representatives of the governments of British Columbia, Nova Scotia, Ontario, Quebec and Saskatchewan signed a new 2016 Agreement Respecting Multi-Jurisdictional Pension Plans (2016 Agreement), which came into effect for these jurisdictions on July 1, 2016. All other provinces (except for Prince Edward Island) are also party to an older Memorandum of Reciprocal Agreement originally signed by the provinces starting in 1968.

CAPSA is currently developing the future agreement respecting multi-jurisdictional pension plans (Future Agreement), which is intended to replace the 2016 Agreement and be signed by all governments in Canada that have pension legislation.

MEMORANDA OF UNDERSTANDING

Statistics Canada and the Province have a Memorandum of Understanding respecting the information about 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

June 21, 2016 – Order in Council 2016-156 amended the regulations to specify that the 2016 Agreement Respecting Multi-Jurisdictional Pension Plans came into effect on July 1, 2016.

December 13, 2016 – Order in Council 2016-303 amended the regulations to exempt the Nova Scotia Health Employees' Pension Plan from the application of the provisions of the *Pension Benefits Act* and the *Pension Benefits Regulations* respecting jointly sponsored pension plans.

REVENUE AND EXPENDITURE FOR THE YEAR ENDING MARCH 31, 2017

Fees are payable by pension plan administrators for the registration of pension plans and for the annual information returns filed for each plan. Individuals applying for pension fund unlocking are required to pay a fee of $116.65 for each application that is approved. Details regarding the type and calculation of fees payable can be found in the Pension Benefit Fees Regulations made by the Minister of Finance.

The revenue derived from fees for the fiscal year amounted to $415,500.

Direct operating costs for the Division (salaries and administration expenses) for the fiscal year 2016-2017 were $292,000. Note that overhead costs (primarily building occupancy, infrastructure and legal costs) are not included in direct operating costs.

OPERATION OF THE DIVISION

As at March 31, 2017, the Division was responsible for the supervision of 492 pension plans (including the four Newpage pension plans). Of the 492 active pension plans on file, 352 are defined contribution pension plans and 140 are defined benefit or combination pension plans.

Chart 1

Summary of Pension Plan Approved, Transferred, or Terminated as at March 31, 2017	
Active Plans On File as at March 31, 2016	502
New Plans Filed	11
Plans Transferred From Other Jurisdictions	3
Plans Terminated	-17
Plans Transferred To Other Jurisdictions	-1
Plans Transferred to Public Service Pension Plan	-5
Data Correction*	-1
Total Active Plans On File as at March 31, 2017	**492**
Plans In Process of Registration	-13
Total Registered Plans	**479**

*Data correction: a cancelled pension plan was included in the active plan summary as at March 31, 2016.

Chart 2

Summary of Approval of Documents Received as at March 31, 2017	
Registration of Amendment to Plan	51
Registration of Restated or Consolidated Plan Texts	15
New Pension Plan Registrations	9
LIF Registrations and Amendments	50

The following table shows that during the period under review, 17 pension plans were terminated.

Chart 3

Terminated Pension Plans as at March 31, 2017		
Reason for Termination	Number of Plans	Number of Active Members
No members left	4	0
No reason given	3	6
Merged with another Plan	4	129
Replaced with group RRSP/annuity	4	114
Company dissolved or sold	1	4
Contributions ceased	1	1
TOTAL	**17**	**254**

CONTRIBUTIONS TO NOVA SCOTIA REGISTERED PENSION PLANS

In accordance with Section 31(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 AIRs are compiled and forwarded to Statistics Canada for inclusion in its annual report on pension plans in Canada. Information from the AIRs is also forwarded to Canada Revenue Agency.

Chart 4 shows data based on the Annual Information Returns (AIRs) filed with fiscal years ending in 2016. The total employee contributions to a Nova Scotia registered pension plans for the twelve months preceding their 2016 fiscal year ends were $307,383,662 and employers contributed $408,632,251. The total contributions to pension plans registered in Nova Scotia were $716,015,913.

Please note that 2015 data in Chart 4 was updated at the date of this report to include data received from AIRs since the March 31, 2016 Annual Report was prepared.

Chart 4

Employee and Employer Contributions	2015	2016
Employee Required Contributions	$285,326,621	$287,600,089
Employee Voluntary Contributions	$19,964,760	$19,783,573
Total Employee Contributions	**$305,291,381**	**$307,383,662**
Required Employer Current Service Contributions	$387,354,409	$371,594,291
Employer Contributions made from Surplus	$(283,716)	$(165,555)
Total Actual Employer Current Service Contributions	**$387,070,693**	**$371,428,736**
Employer Special Payments	$69,432,033*	$37,203,515
Total Employer Contributions	**$456,502,726**	**$408,632,251**
TOTAL CONTRIBUTIONS	**$761,794,107**	**$716,015,913**

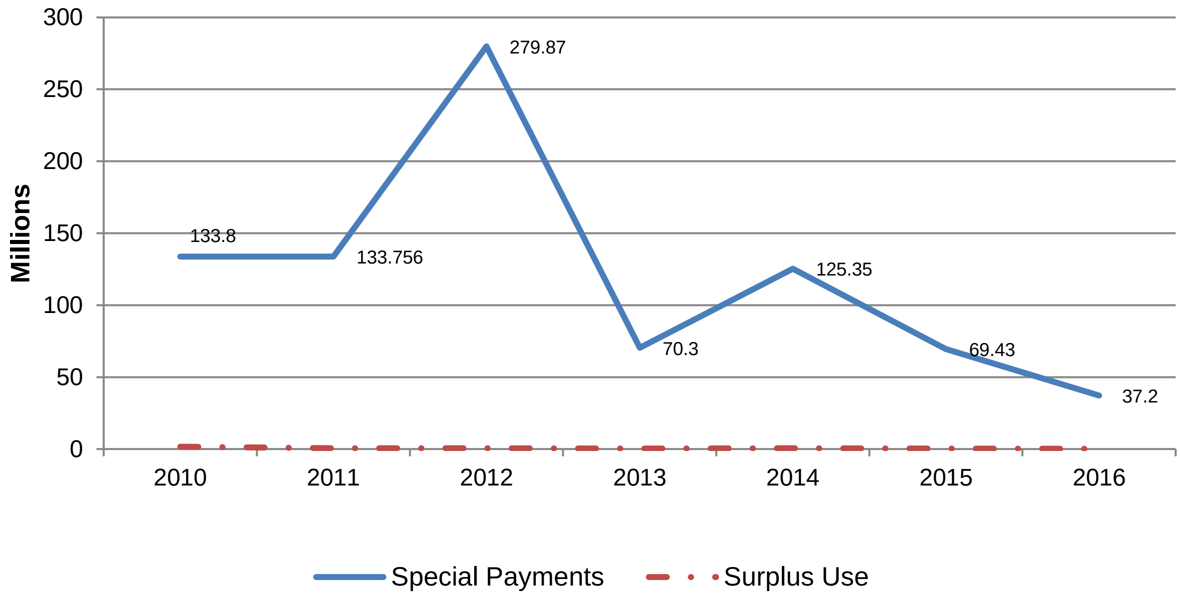
*Data correction to 2015 special payments: $7,154,274 was incorrectly shown as a special payment amount in respect of one registered pension plan. The amount should have been shown as an employer current service cost.

Note: The large decrease in employer special payments is due in part to a new valuation of one large registered pension plan (DB/DC), which resulted in a $21,931,745 decrease in employer special payments.

An analysis of the special payments made by employers, and the use of surplus to fund benefits, is as follows:

Graph 1

Funding Analysis



SECURITY OF RETIREMENT INCOME

The primary measures used to determine the security of retirement income for members of pension plans are the solvency and going concern funded position of the plans.

SOLVENCY

The solvency funded position of defined benefit plans is measured through solvency valuations performed by an actuary. Pension plan solvency refers to a plan's ability to meet its total obligations towards all plan members, including pensioners, assuming the plan is being wound up and all liabilities settled on the valuation date. In solvency valuations, there is no projection of salaries for final average pension benefits, and indexation of benefits provided under a plan's provisions accrued prior to June 1, 2015 do not need to be included. As well, the right to grow in to unreduced early retirement benefits, provided under Section 97 of the Act, can be excluded from solvency calculations.

If defined benefit plans are not fully solvent, there must be a strategy in place to achieve full solvency funding within 5 years. Note that under the *Income Tax Act* (Canada), individual pension plans for shareholders are not permitted to fund solvency deficiencies.

Numerous measures for providing relief for solvency funding have been granted. In 2009, all plans with solvency deficiencies identified in a valuation report prepared between December 30, 2008 and January 2, 2011 could be amortized over 10 years instead of 5 years if fewer than 1/3 of active, deferred and retired members objected to the extension of solvency funding.

In 2012, specified multi-employer pension plans, universities, school boards and the Atlantic Police Association were fully exempted from the requirement to fund solvency deficiencies. Directions Council for Community Living Pension Plan was exempted from solvency funding for 5 years.

In 2013, for any plan with solvency deficiencies arising before January 2, 2014, the deficiency can be amortized over a period of 15 years, if no more than 1/3 of active, deferred and retired members object to the extension to solvency funding.

These regulatory changes will result in a delay in improvement of the solvency position of these plans.

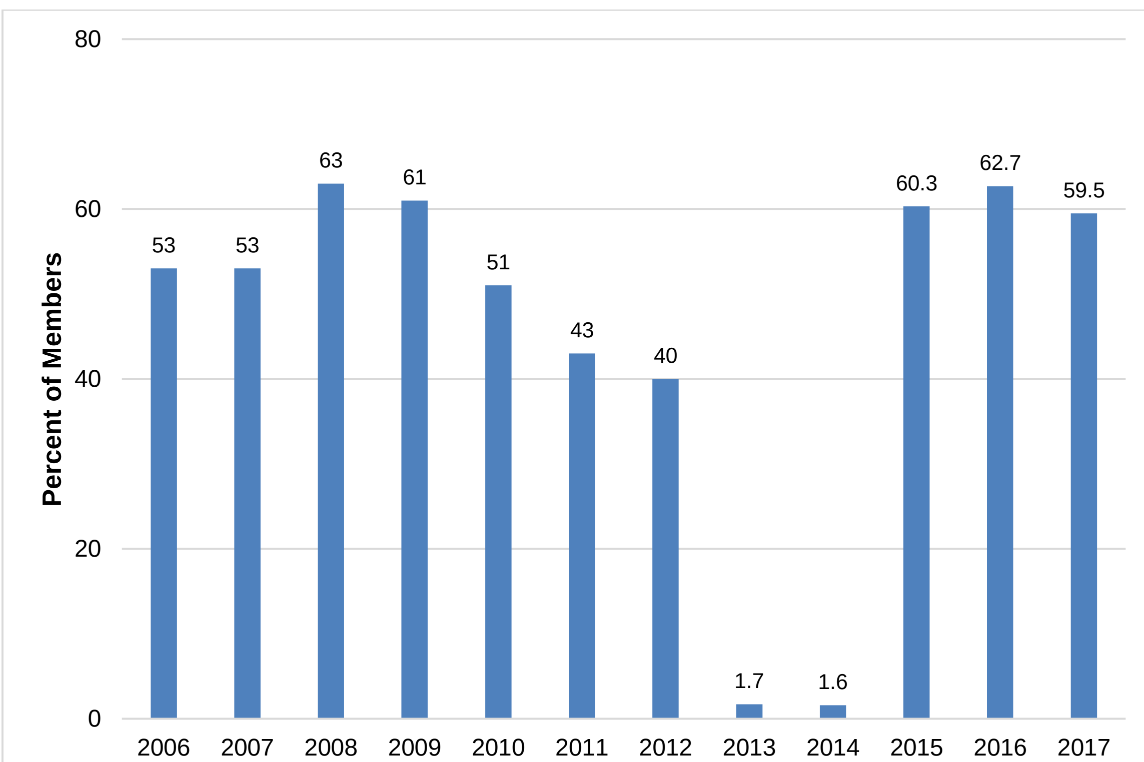
The four NewPage pension plans are in extended wind-up and no further contributions are being made to those plans. The four plans cover 930 members, and had a weighted solvency ratio of 0.62, based on the information provided to March 31, 2017. The goal is to achieve an improvement of 8% in the funded status of the plan by July 1, 2023. If the improvement is reached before that date, an earlier wind-up will be requested by the administrator. The improvement from September 28, 2012 (date of wind-up) to September 28, 2016 (date of most recent report) has been between -0.8% and -3.2%.

The following table shows the change in the percentage of defined benefit pension plan members and combination defined benefit/defined contribution pension plan (combination plan) members in fully solvent plans from the actuarial valuations on file on March 31, 2008 to the valuations on file on March 31, 2017.

- Members include active members, deferred members, pensioners, survivors and beneficiaries in this section of the report.
- Solvency assets are determined as the market value of assets less wind-up expenses.
- No adjustments are made for smoothing of assets or for scheduled special payments.
- The NewPage pension plans are excluded from this analysis.
- Two pension plans with initial valuations showing nil assets and liabilities are excluded from this analysis.

Graph 2

Percent of Members in Fully Solvent Defined Benefit Plans



The dramatic changes for the years between March 31, 2012 and March 31, 2015 relate to one very large plan that represented 38% of defined benefit and combination plan members in 2012.

The breakdown of membership in defined benefit and combination pension plans as at March 31, 2017 by the solvency position of the plans is as follows. In total, 77.6% of members are in pension plans that are 80% solvent or better.

- 59.5% of members are in 38 plans that are 100% or more solvent,
- 4.1% are in 28 plans that are between 90% and 99% solvent,
- 14.0% are in 23 plans that are between 80% and 89% solvent,
- 9.9% are in 24 plans that are between 70% and 79% solvent, and
- 12.5% are in 21 plans that are less than 70% solvent.

As of March 31, 2016, 78.0% of members were in plans that were 80% solvent or better. The statistics for March 31, 2016 were as follows:

- 62.7% of members are in 37 plans that are 100% or more solvent,
- 3.8% are in 31 plans that are between 90% and 99% solvent,
- 11.5% are in 25 plans that are between 80% and 89% solvent,
- 8.6% are in 22 plans that are between 70% and 79% solvent, and
- 13.4% are in 24 plans that are less than 70% solvent.

The solvency of pension plans registered in Nova Scotia (excluding the four NewPage plans and two new pension plans with no assets or liabilities), as shown on the following chart, shows the funded status of pension plans (weighted by number of members) in accordance with the category of solvency funding that applies. Specifics on those plans are as follows:

Chart 5

Solvency Ratio of Pension Plans			
	Number of Plans	Number of Members	Weighted Solvency Ratio
SMEPPs (specified multi-employer plans)	8	10,891	0.80
Municipalities, Police Association and Halifax Water Commission	18	12,820	0.66
Universities	3	4,425	0.86
School Board	5	5,352	0.76
Others (solvency relief)	20	4,873	0.82
Others (no solvency relief)	28	59,367	1.01
Individual Pension Plans (Shareholders)	52	74	0.92
TOTAL	**134**	**97,802**	

GOING CONCERN

The going concern financial position of defined benefit plans is measured through going concern valuations performed by an actuary. The going concern basis of a pension plan refers to a plan's ability to meet its total obligations towards all plan members, including pensioners, assuming the plan continues in operation indefinitely. A pension plan is considered fully funded on a going concern basis if the existing assets will be sufficient to enable accrued benefits to be paid as they fall due.

- Members include active members, deferred members, pensioners, survivors and beneficiaries in this section of the report.
- The NewPage pension plans are excluded from this analysis.
- Two pension plans with initial valuations showing nil assets and liabilities are excluded from this analysis.

The breakdown of membership in defined benefit and combination pension plans as at the plans' most recent actuarial valuation on file by funding status on a going concern basis follows. In total, 99.7% of members are in pension plans that have a going concern funded ratio of 80% or better.

- 75.0% of members are in 82 plans that are 100% or more fully funded on a going concern basis,
- 13.6% are in 24 plans that are between 90% and 99% fully funded on a going concern basis,
- 11.1% are in 12 plans that are between 80% and 89% fully funded on a going concern basis,
- 0.3% are in 8 plans that are between 70% and 79% fully funded on a going concern basis, and
- 0.0% are in 8 plans that are less than 70% fully funded on a going concern basis.

The following chart shows the funding position on a going concern basis of pension plans registered in Nova Scotia (excluding the four NewPage plans and two new pension plans with no assets or liabilities), weighted by number of members, in the same categories as were presented in Chart 5 (Solvency Ratio).

Chart 6

Going Concern Funded Ratio of Pension Plans	Number of Plans	Number of Members	Weighted Going Concern Ratio
SMEPPs (specified multi-employer plans)	8	10,891	1.17
Municipalities, Police Association and Halifax Water Commission	18	12,820	0.92
Universities	3	4,425	0.94
School Board	5	5,352	1.02
Others (solvency relief)	20	4,873	1.02
Others (no solvency relief)	28	59,367	1.18
Individual Pension Plans (Shareholders)	52	74	1.02
TOTAL	**134**	**97,802**	

FINANCIAL HARDSHIP UNLOCKING

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. Any unlocking of funds needs to be, as per the Nova Scotia *Pension Benefits* Act, approved by the Superintendent of Pensions. The unlocking criteria are in respect of:

1. mortgage arrears where the owner or owner's spouse is facing foreclosure – the maximum withdrawn cannot exceed the amount in arrears plus enforcement costs;
2. rental arrears where the owner or the owner's spouse is facing eviction from the rental premises - the maximum withdrawn cannot exceed the amount in arrears plus enforcement costs to reinstate tenancy;
3. medical expenses not paid under another program – maximum withdrawn cannot exceed medical expenses incurred in the previous 12 months plus an amount to pay medical expenses to be incurred in the next 12 months;
4. income below $36,867 (for 2017) – maximum withdrawn cannot exceed $27,650 less 75% of anticipated income for the next 12 months.

For each circumstance, only one application may be approved per 12-month period. Unlocking for mortgage arrears and rental arrears may only be approved once in a lifetime.

Chart 7

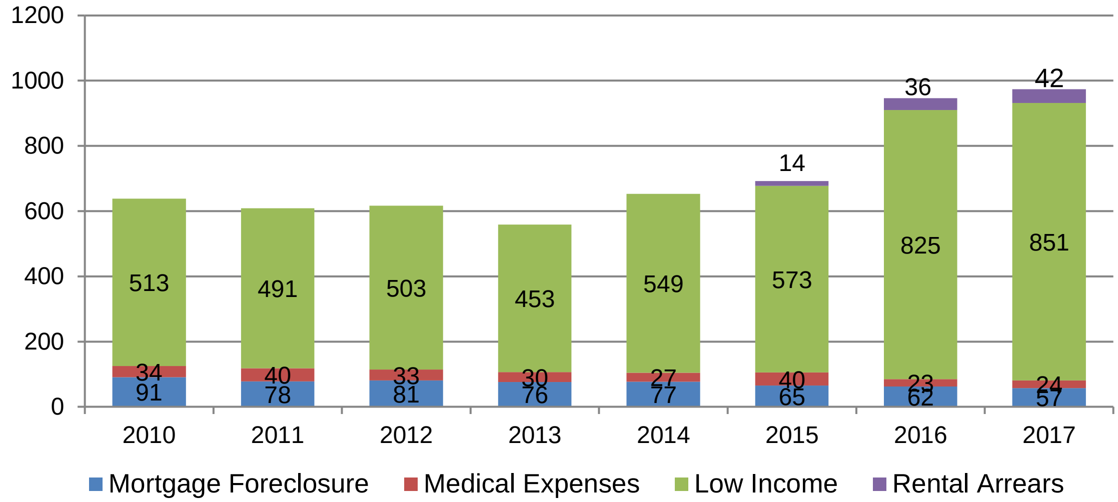
Funds Unlocked for Applications Received in the Year Ending March 31, 2017				
Reason of Financial Hardship	**Applications Received**	**Applications Denied**	**Applications Incomplete**	**Applications Approved**
Rental Arrears	42	4	4	34
Mortgage Foreclosure	57	11	7	39
Medical Expenses	24	1	3	20
Low Income	851	123	145	583
Total	**974**	**139**	**159**	**676**

Chart 8

Funds Unlocked in the Year Ending March 31, 2017		
Reason of Financial Hardship	**Dollar Value of Funds Released**	**Average Release per Successful Application**
Rental Arrears	$144,810	$4,259
Mortgage Foreclosure	$290,596	$7,451
Medical Expenses	$183,407	$9,170
Low Income	$6,887,296	$11,814
Total	**$7,506,109**	**$11,104**

Graph 3

Number of Applications Received Under the Financial Hardship Program
Fiscal Years Ending March 31



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/eviction;
- Rental property is not primary residence and/or there is no threat of eviction if rent is not paid;
- Earnings are too high to qualify for low income criterion.

APPENDIX A

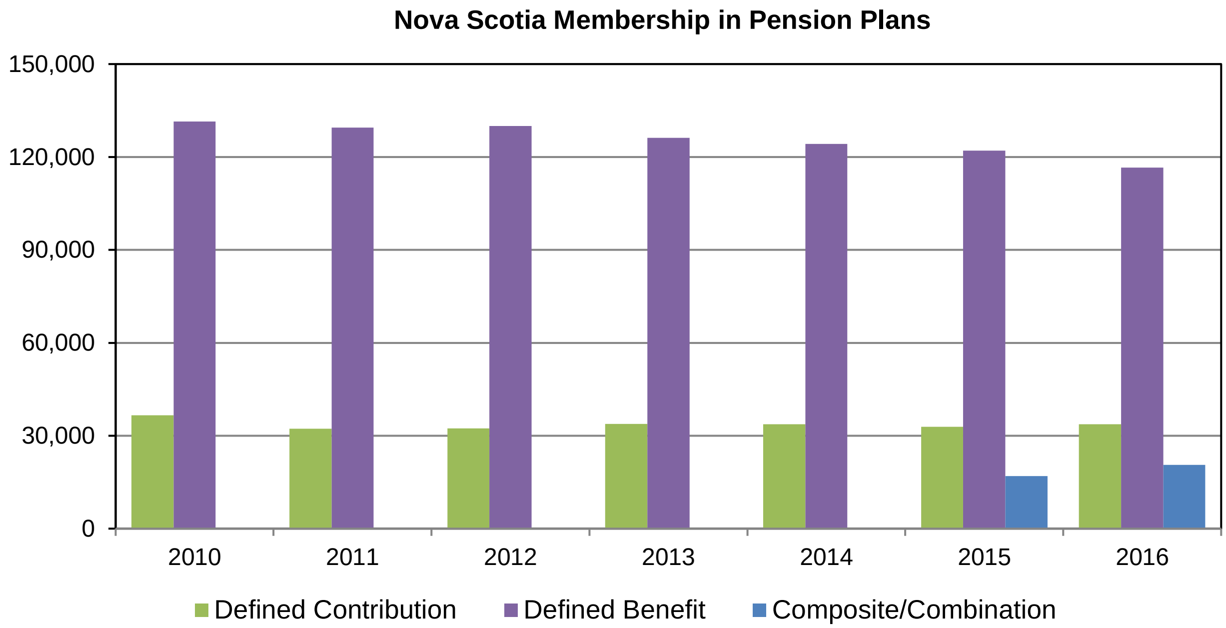
STATISTICAL INFORMATION

The information provided in this appendix is based on information provided by Statistics Canada's database on pension plans in Canada as at January 1, 2016.

TYPES OF PLANS

There were 33,726 Nova Scotia members participating in defined contribution plans, 116,558 were in defined benefit plans and 20,639 were in other types of composite/combination plans which have both defined benefit and defined contribution characteristics. The total of Nova Scotia members participating in registered pension plans is 170,923 members.

Graph 4

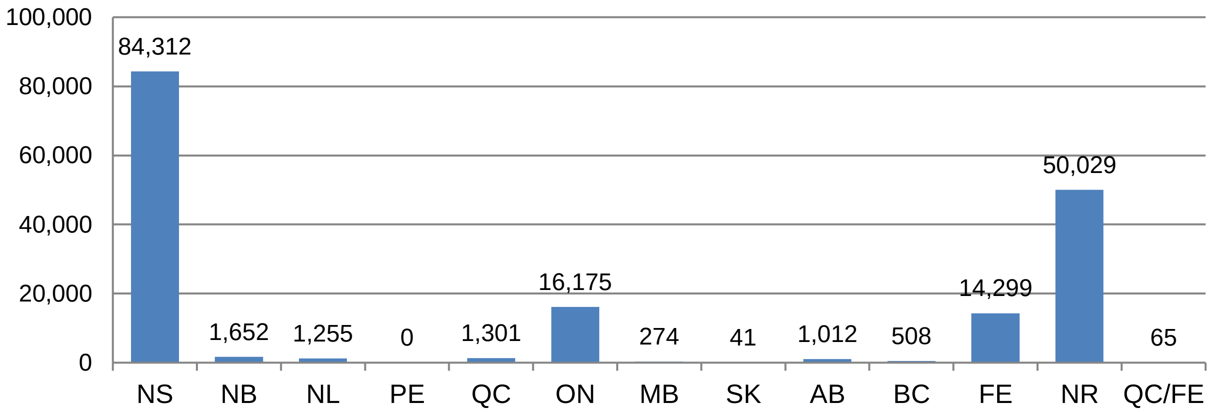


JURISDICTION OF PLAN MEMBERSHIP AND MEMBERSHIP COVERAGE

In the following chart, FE refers to plans of employers subject to federal jurisdiction such as interprovincial transportation and communication. NR means plans that are not registered like 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.

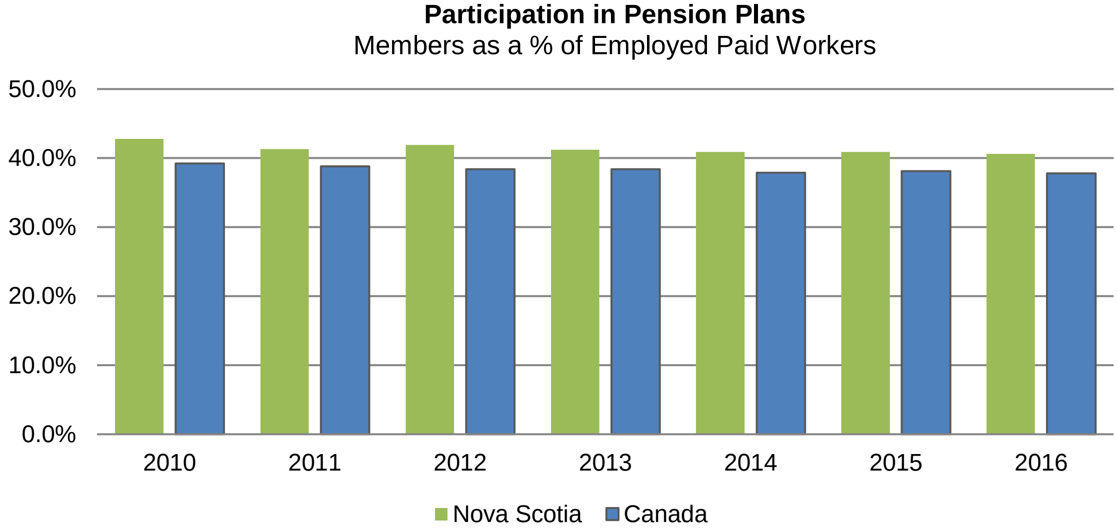
Graph 5

Nova Scotia Members in Plans in Canada by Jurisdiction



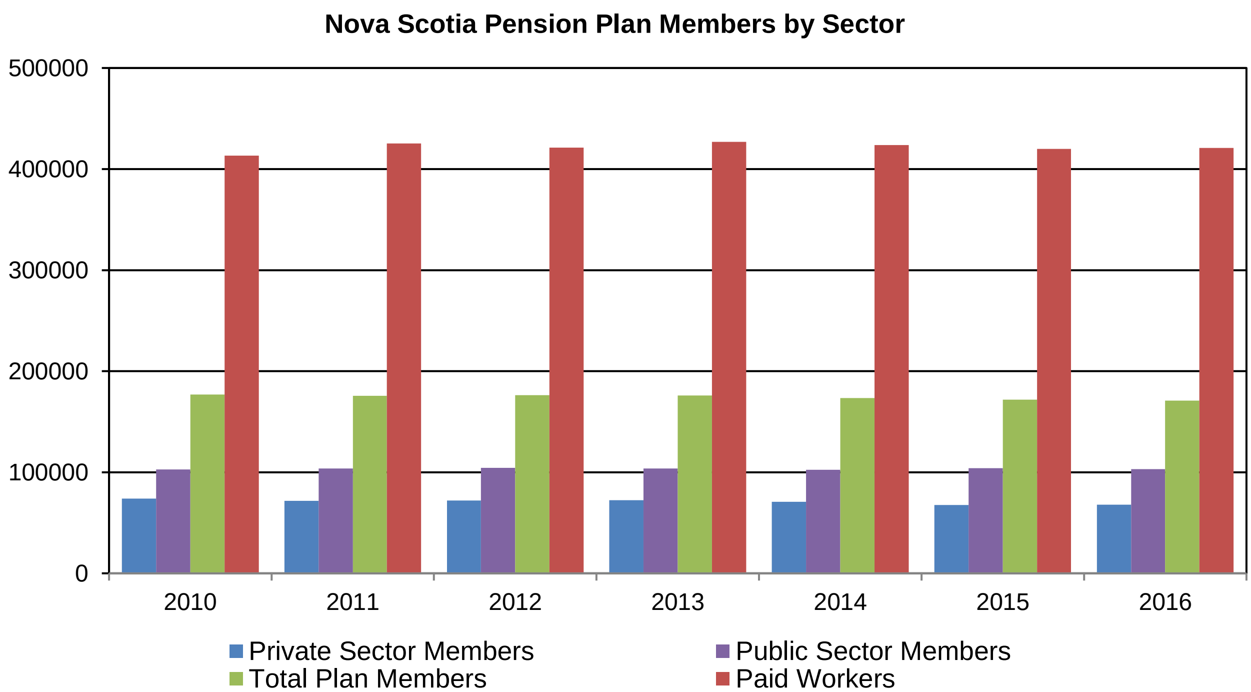
As shown in the following chart, participation by Nova Scotians in pension plans has not varied significantly since 2006. Currently in Nova Scotia, 40.6% of employed paid workers participate in pension plans. This number for Canada is 37.8%

Graph 6



Nova Scotia has a higher than average proportion of paid workers in the public sector, where pension coverage is very high. Currently 60.3% of Nova Scotia pension plan members are employed in the public sector, as illustrated in the following chart:

Graph 7

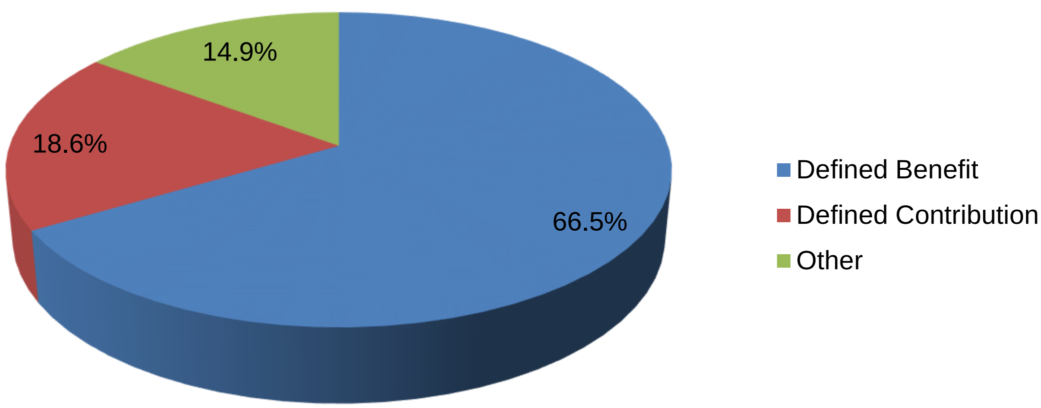


ASSET ANALYSIS

A total of $17.2 billion was held in pension plans registered in Nova Scotia. As shown in the following chart, 66.5% of those assets, or $11.4 billion, was held in defined benefit plans, with 18.6% or $3.2 billion in defined contribution plans and 14.9% or $2.5 billion in composite/combination plans.

Graph 8

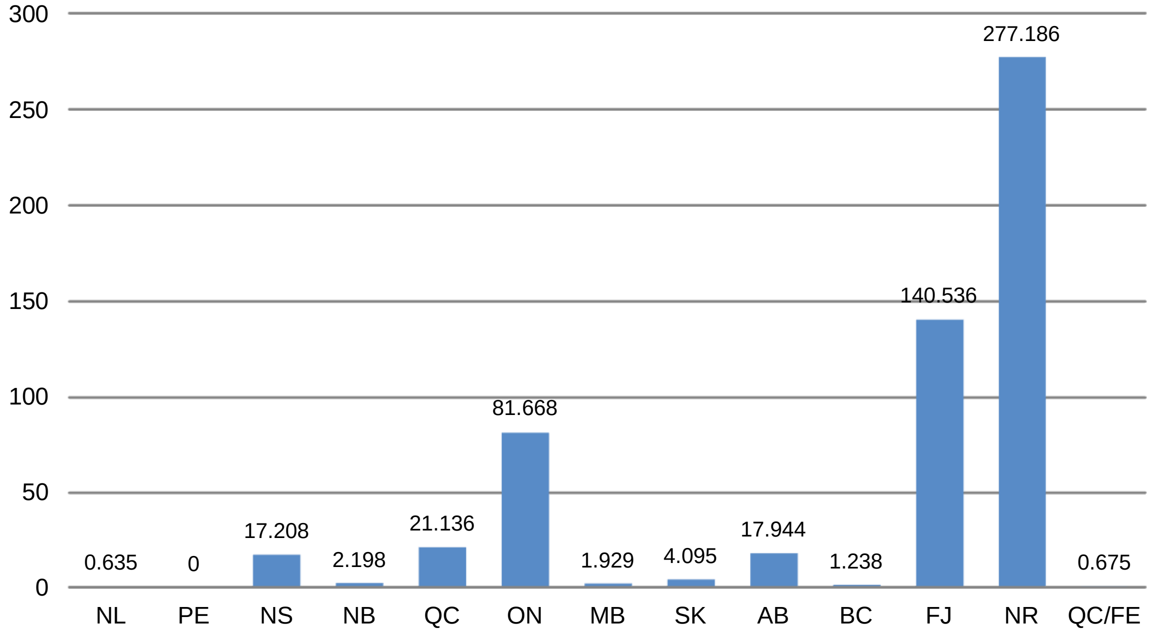
Plans Registered in Nova Scotia
Asset Distribution



Of the pension plans in Canada whose membership includes members in Nova Scotia, defined benefit plans held 73.9% of total assets or $418.9 billion, defined contribution plans held 4.1% or $23.5 billion and composite/combination pension plans held 22.0% or $124.1 billion.

Graph 19

Assets for Plans with Nova Scotia Members (billions)



As seen in the previous chart, a significant portion of the $566 billion in assets held in pension plans with Nova Scotia members was held in non-registered plans (see the description of non-registered plans on page 13). Plans under the federal and Ontario jurisdictions with Nova Scotia members also held significant assets