REPORT OF THE

SUPERINTENDENT OF PENSIONS

ON THE ADMINISTRATION OF THE

PENSION BENEFITS ACT

FOR THE YEAR ENDING

MARCH 31, 2012

NOVA SCOTIA
Labour and Advanced Education

Pension Regulation Division
PO Box 2531
Halifax, Nova Scotia
B3J 3N5

September 26, 2012

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, 2012.

Respectfully submitted,

Nancy MacNeill Smith
Superintendent of Pensions

THIRTY-FIFTH ANNUAL REPORT ON THE ADMINISTRATION OF THE *PENSION BENEFITS ACT* FOR THE PERIOD ENDED MARCH 31, 2012

INTRODUCTION

In accordance with Section 94 of the *Pension Benefits Act* (RSNS, 1989, c. 340), the Superintendent of Pensions is required to report annually to the Minister. This Report covers the affairs and transactions of the fiscal year 2011 – 2012.

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 Vancouver in September 2011 and in Quebec in March 2012. CAPSA members also participated in two conference call meetings held in June 2011 and January 2012. Various sub-committees of CAPSA met during the year. A summary of CAPSA's activities is as follows:

- The Agreement Respecting Multi-Jurisdictional Pension Plans (the Agreement), developed by CAPSA, has been signed by Ontario and Quebec and came into effect for these jurisdictions on July 1, 2011. At the fall meeting, CASPA agreed on a process to facilitate the signing of the Agreement by additional jurisdictions. It is expected that more jurisdictions will be able to enter into the Agreement in 2012.

- CAPSA finalized the Prudent Investment Practices Guideline, the companion Self-Assessment Questionnaire and the Funding Policy Guideline. The Prudent Investment Practices Guideline and Self-Assessment Questionnaire are intended to provide guidance to plan administrators in demonstrating the application of prudence in the investment of pension plan assets. The Funding Guideline is intended to provide guidance on the development and adoption of funding policies.

- CAPSA members have agreed in principle to a new 2012-15 Strategic Plan. The plan outlines the strategic priorities and initiatives of the organization over the next three years.

- CAPSA met with Finance Canada to discuss the Pooled Registered Pension Plans Act (PRPPA) which was introduced by the Federal government on November 17, 2011. CAPSA continues its dialogue with Finance Canada and will provide input in the development of supporting regulations for the PRPPA.

- 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 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 Information and Education Committee was established in 2006 to coordinate regulatory efforts on consumer information and education including exchanging information on best practices in delivering information and partnering with other organizations. The Commissioner of the Financial Consumer Agency of Canada (FCAC) advised the Joint Forum, at its spring meeting, of the FCAC mandate, priorities and key initiatives as well as potential areas and projects that the FCAC, the Joint Forum and its constituent members could work on cooperatively.

- The Regulatory Enforcement and Information Sharing initiative was established in 2006 to develop mechanisms to allow for more effective sharing on regulatory enforcement issues and actions across sectors and jurisdictions. The Canadian Council of Insurance Regulators provided an update on their initiative to assess the feasibility of establishing a database for insurance disciplinary action. The Canadian Securities Administrators has established and made a searchable database available to the public. The Joint Forum is supportive of a centralized means for consumers to access disciplinary action information.

- The Joint Forum established a Product Disclosure and Regulation Committee in 2010 to examine the responsibilities of financial product manufacturers, intermediaries and consumers in ensuring that consumers are offered suitable products and are able to make informed decisions. The Committee was given an overview of the processes and practices for the development of Individual variable insurance contracts and mutual funds by the Canadian Life and Health Insurance Association (CLHIA), the Investment Funds Institute of Canada (IFIC) and representatives from their member firms. The CLHIA and IFIC will provide detailed written reports to the Committee.

- The Capital Accumulation Plans Committee was re-constituted in 2011 to examine certain issues related to capital accumulation plans (CAPs) referred to the Joint Forum by CAPSA, as well as to assess the implications of the Pooled Registered Pension Plans on CAPs and to consider whether other governance standards need to be incorporated into the Joint Forum CAP Guidelines. The Committee held a consultation session with stakeholders to obtain input on these issues based on a research and analysis paper the Committee had developed. The Committee will review the input obtained during the consultation session to determine its next steps.

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. It is expected that more jurisdictions will enter into the Agreement in the next year.

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

April 26, 2011- Order in Council 2011-153 provided an extension to Halifax Regional Municipality for making additional solvency deficiency special payments to its pension plan, which were due to be paid in 2010, to be paid in monthly installments over 2011 and 2012.

April 26, 2011 – Order in Council 2011-154 provided solvency funding relief for university pension plans by giving universities an additional two years during which solvency payments were not required.

October 4, 2011 – Order in Council 2011-363 allowed for the appointment by the Superintendent of Pensions of an administrator for the four pension plans sponsored by NewPage Port Hawkesbury Corp. New Page Port Hawkesbury Corp. sought protection under the Companies' Creditors Arrangement Act on September 6, 2011 and resigned as administrator of its pension plans effective October 4, 2011.

OPERATION OF THE DIVISION

As at March 31, 2012, the Division was responsible for the supervision of 501 pension plans. Fifteen applications for registration were processed during the fiscal year. Four of the filed plans were in the process of being wound up.

SUMMARY OF PENSION PLANS APPROVED, TRANSFERRED, OR TERMINATED TO MARCH 31, 2012

Active Plans On File as at March 31, 2011	508
New Plans Filed	15
Plans Terminated	-20
Plans Transferred To Other Jurisdictions	-2
Active Plans On File as at March 31, 2012	501
Deduct: Plans In Process of Registration	-9
Registered Plans	492

SUMMARY OF PERMITS/APPROVALS OF DOCUMENTS RECEIVED TO MARCH 31, 2012

Registration of Amendment to Plan	116
New Pension Plan Registrations	10
LIF Registrations	21
Approvals only (Policy, Trust Agreements, other documents not requiring registration)	10

The following table shows that during the period under review, 20 pension plans were terminated covering 769 employees. One hundred twenty-eight (128) of these employees were members of plans that merged with another plan. Forty-six (46) of these employees were in plans that were replaced by a group RRSP or individual annuity. There were six partial plan terminations affecting 252 members due to plan mergers. There were two plans transferred to other provincial jurisdictions, namely Ontario and Alberta.

TERMINATED PENSION PLANS

Reason for Termination	# of Plans	# of Active Members
No members left	7	0
No reason given	5	537
Merged with another	2	128
Replaced with group RRSP/annuity	3	46
Company dissolved or sold	2	57
Financial problems	1	1
TOTAL	**20**	**769**

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.

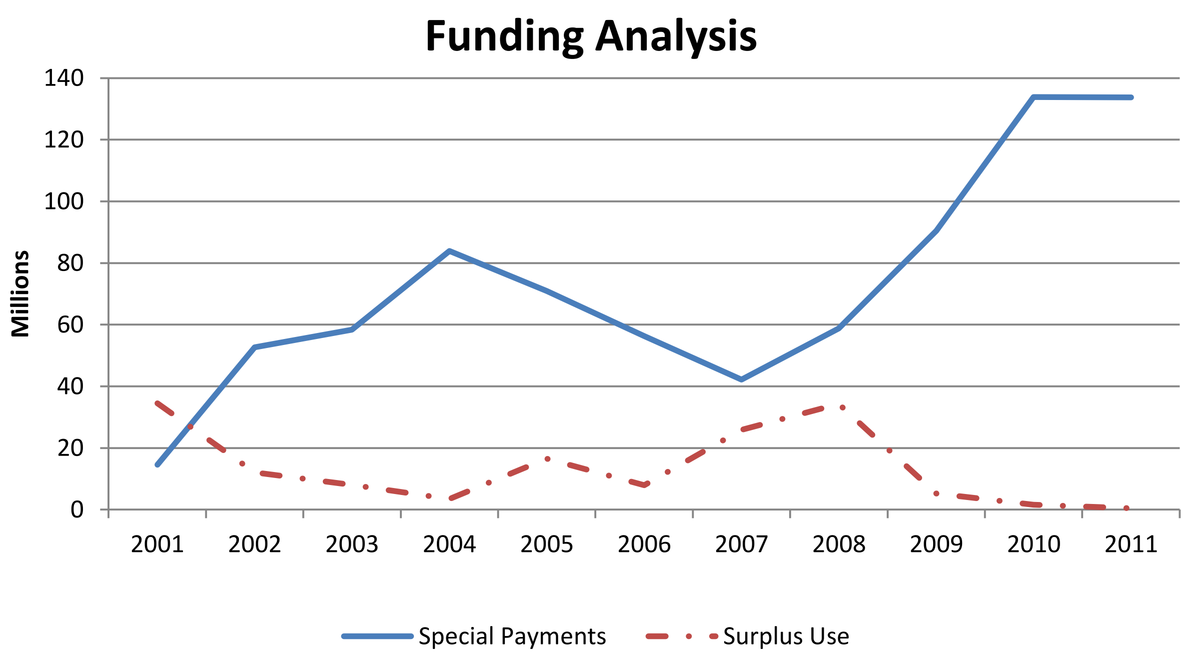
Based on the Returns filed with the Division as of September 13, 2012, total contributions for 2011 were $703.28 million, up from $682.12 million in 2010.

The employee and employer contributions to pension plans under supervision for the year ending December 31, 2011, were as follows:

2011 CONTRIBUTIONS

Employee Required Contributions	$225,370,973	
Employee Voluntary Contributions	$15,329,492	
TOTAL EMPLOYEE CONTRIBUTIONS		$240,700,465
Actual Employer Current Service Contributions	$328,371,661	
Employer Contributions made from Surplus	$451,261	
TOTAL EMPLOYER CURRENT SERVICE CONTRIBUTIONS	$328,822,922	
Employer Special Payments	$133,755,543	
TOTAL EMPLOYER CONTRIBUTIONS		$462,578,465
TOTAL CONTRIBUTIONS		**$703,278,930**

Employer contributions made from surplus were $451,261, down from $1.6 million reported for 2010. Employer special payments were $133.76 million, down slightly from $133.8 reported for 2010. 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 51 notices of non-remittance issued by the fund holder in the fiscal year, within an average of 9 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).

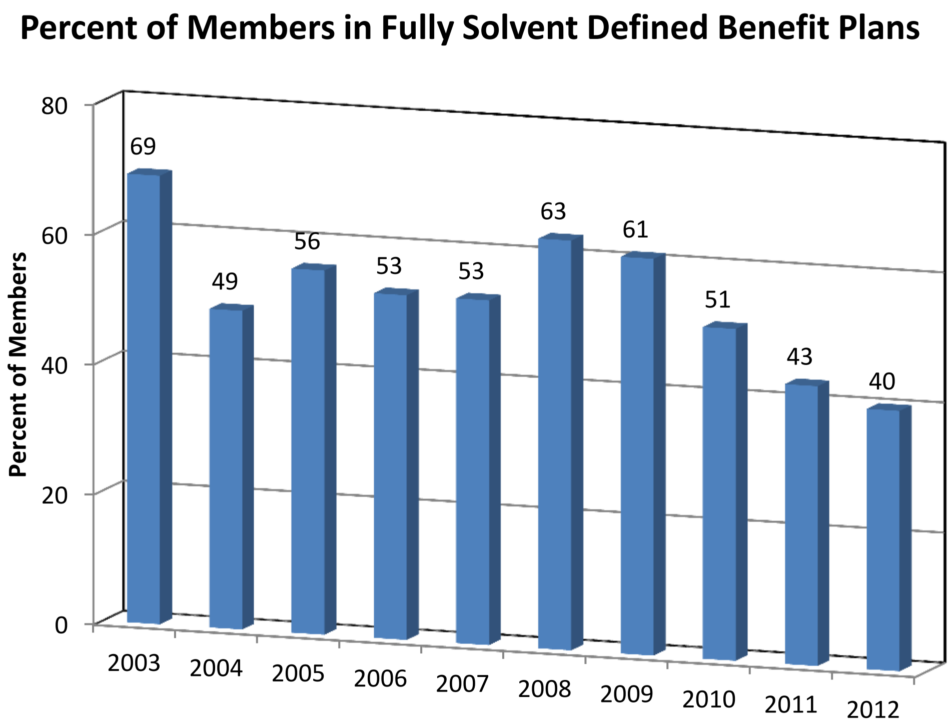
In 2004 the Government removed the requirement to include the liability for “grow-in” benefits in a solvency valuation. “Grow-in” benefits are the right to receive subsidized early retirement benefits, provided under some plans, when a plan is wound up, even though the members have not met eligibility 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. In 2010 the regulations were amended to permit special payments to amortize a solvency deficiency in a university pension plan arising before January 2, 2011 to be omitted in the first year of the three-year period beginning with the first valuation report prepared between December 30, 2008 and January 2, 2011. In 2011 the universities were given an additional two years of solvency funding relief.

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, 2012, five specified multi-employer pension plans, eight municipality pension plans, five university pension plans and 21 other private plans had elected to take advantage of the solvency funding relief provided. These plans provided pension coverage for 24,991 members.

The following table shows the change in the percentage of defined benefit pension plan members in fully solvent plans from 2003 to 2012.



The following is a breakdown of membership in defined benefit pension plans in 2012:

- 40% of members are in plans that are 100% solvent,
- 16% are in plans that are between 90% and 99% solvent,
- 36% are in plans that are between 80% and 89% solvent,
- 8% are in plans that are between 70% and 79% solvent, and
- 0.1% are in plans that are less than 70% solvent. *

***Percentages may not add up to 100% due to rounding.**

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 $20,040 (for 2012).

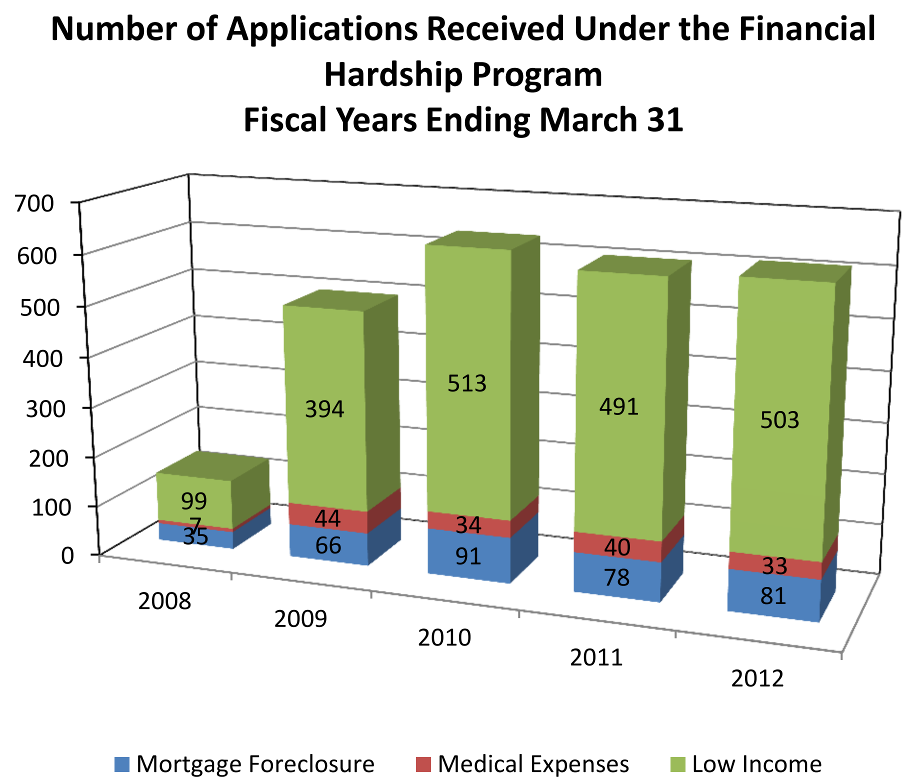
The following statistics relate to the unlocking program as at March 31, 2012.

Funds Unlocked in the Year Ending March 31, 2012

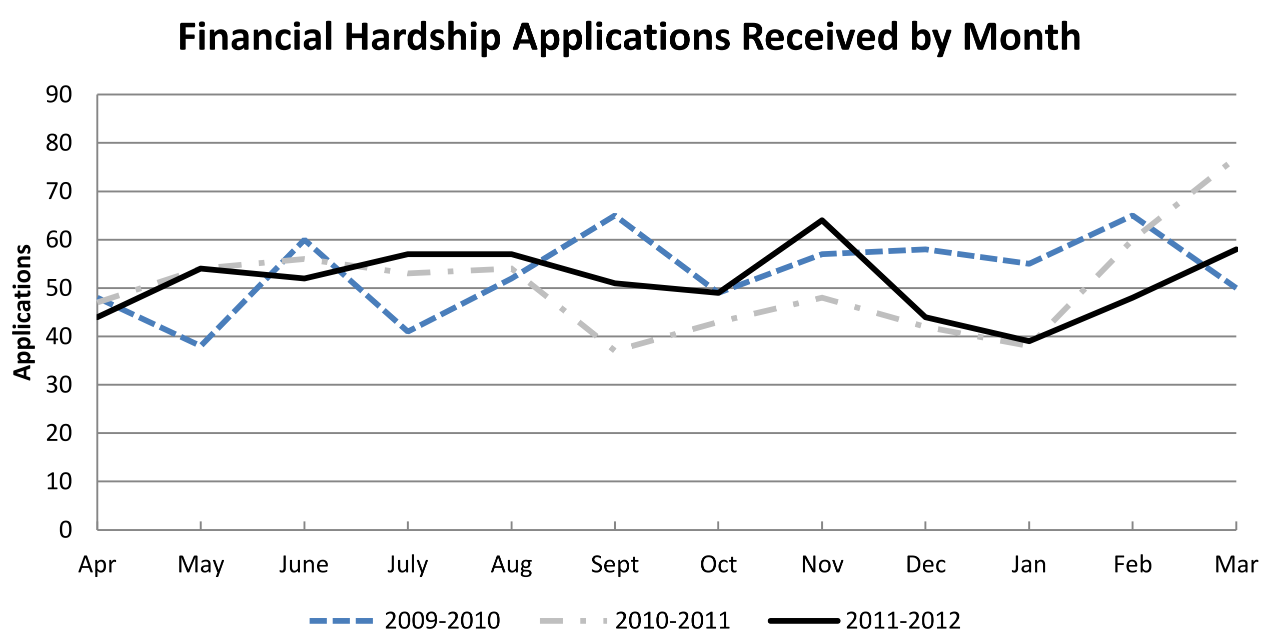
Reason of Financial Hardship	Number of Applications Received	Number of Applications Approved	Dollar Value of Funds Released	Average Release per Successful Application
Mortgage Foreclosure	81	35	$219,594	$6,274
Medical Expenses	33	20	$111,112	$5,556
Low Income	503	306	$2,819,110	$9,213
Total	**617**	**361**	**$3,149,816**	**$8,725**

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

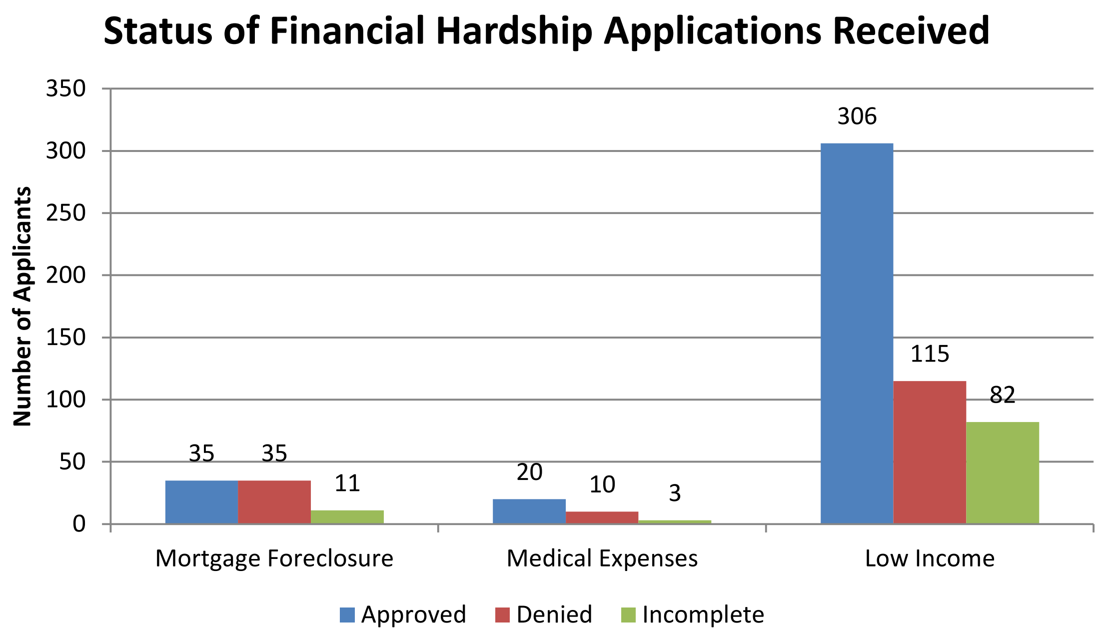
Reason of Financial Hardship	Number of Applications Received	Number of Applications Approved	Dollar Value of Funds Released	Average Release per Successful Application
Mortgage Foreclosure	351	173	$947,023	$5,474
Medical Expenses	158	81	$509,912	$6,295
Low Income	2,000	1,244	$10,957,773	$8,809
Total	**2,509**	**1,498**	**$12,414,708**	**$8,288**



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



The following graph shows the status of applications received per reason during 2011/2012. Incomplete means that a letter requesting further information was sent to an applicant, but no response was received.



In total, 617 applications were received, 361 were approved, 160 denied, and 96 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 criterion;
- Earnings are too high to qualify for low income criterion.

REVENUE AND EXPENDITURE FOR THE YEAR ENDED MARCH 31, 2012

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 $5.35 for each member of the pension plan in Nova Scotia, or in a designated province, with a minimum fee of $107.05. The maximum fee is $8,029.21. 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 $1,070.56. A fee of $267.63 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 $107.05.

The revenue derived from fees charged in respect of Applications for Registration, Annual Information Returns, Life Income Funds, and financial hardship unlocking amounted to $347,167.

Direct operating costs for the Division for the fiscal year 2011/2012 were $341,699. Note that overhead costs are not included in direct operating costs.

APPENDIX A

STATISTICAL INFORMATION

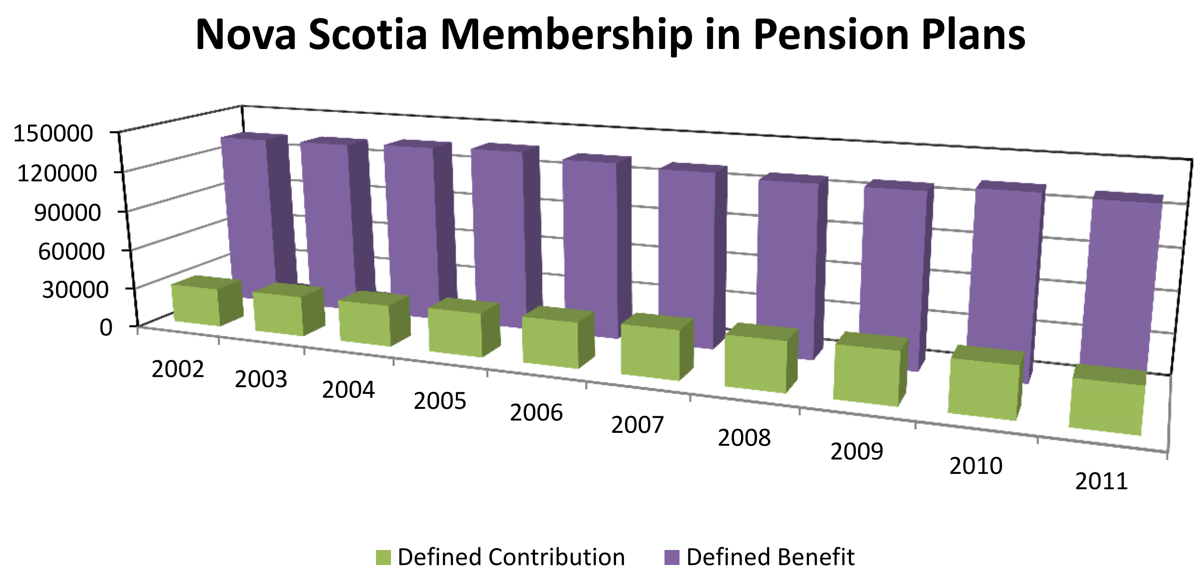
The information provided in this appendix is based on statistical information obtained from Statistics Canada's database on pension plans in Canada as at January 1st, 2011. As of this date, 106,911 members participated in 496 pension plans regulated by the Division.

TYPES OF PLANS

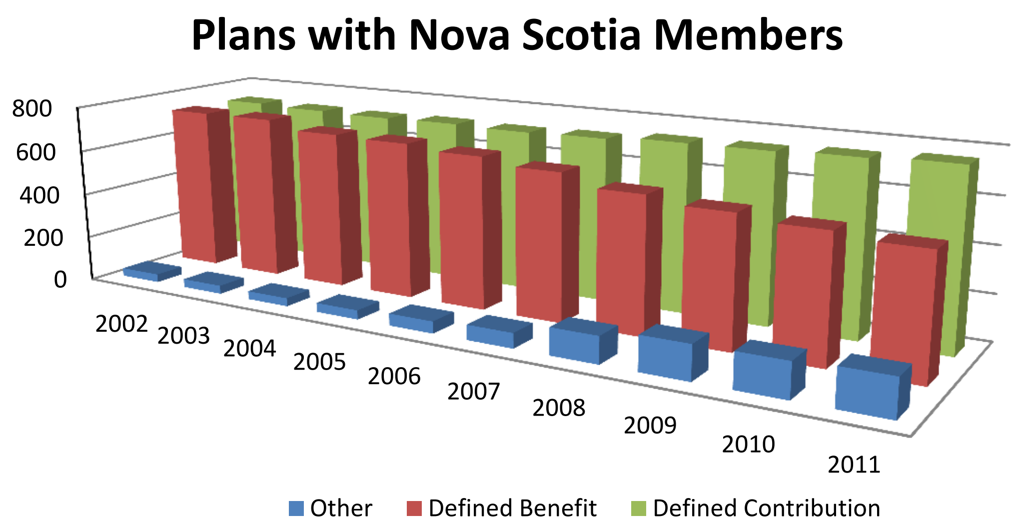
There are two main types of pension plans; a defined contribution plan or a defined benefit plan. Under a defined contribution plan, contributions required by the employer and/or employees are clearly defined. The resulting pension benefit for each employee is whatever can be provided or purchased by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

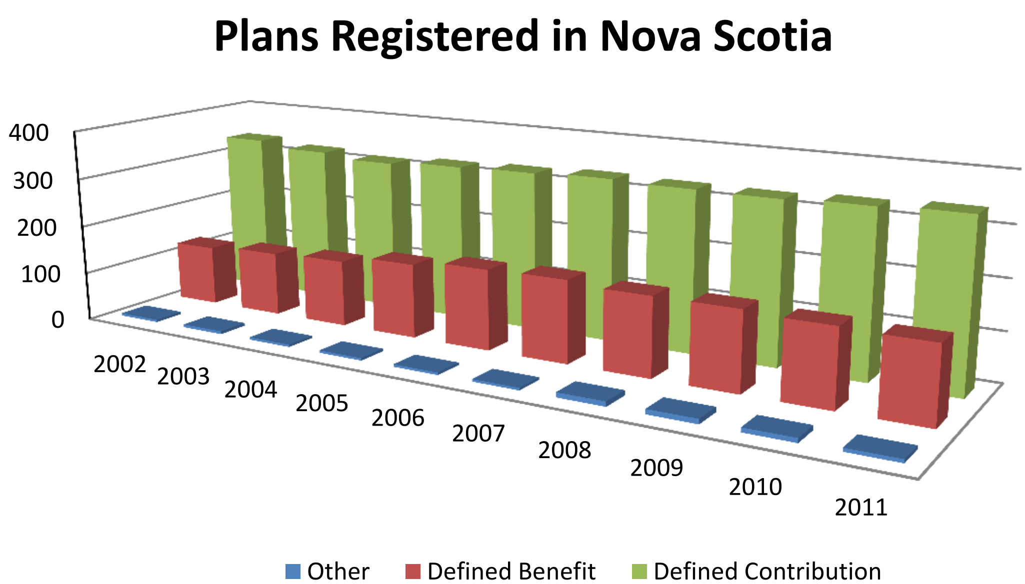
As of January 1, 2011, there were 32,224 Nova Scotia members participating in defined contribution plans, 129,480 participating in defined benefit plans and 13,921 in other types of composite/combination plans.



Membership in pension plans other than defined benefit and defined contribution plans is insignificant and has not been included in the chart on page 14. Participation in defined contribution and defined benefits has decreased between 2010 and 2011 while participation in combination plans has increased.



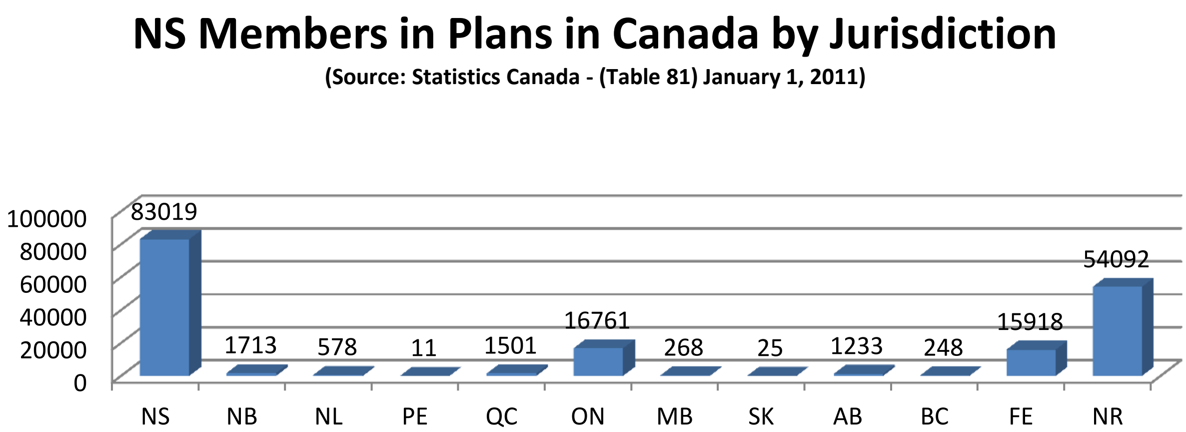
The number of defined benefit pension plans across Canada with Nova Scotia members declined 29% between 2002 and 2011 to 519 plans. The number of defined contribution plans with Nova Scotia members increased by 4.6% to 760 plans.

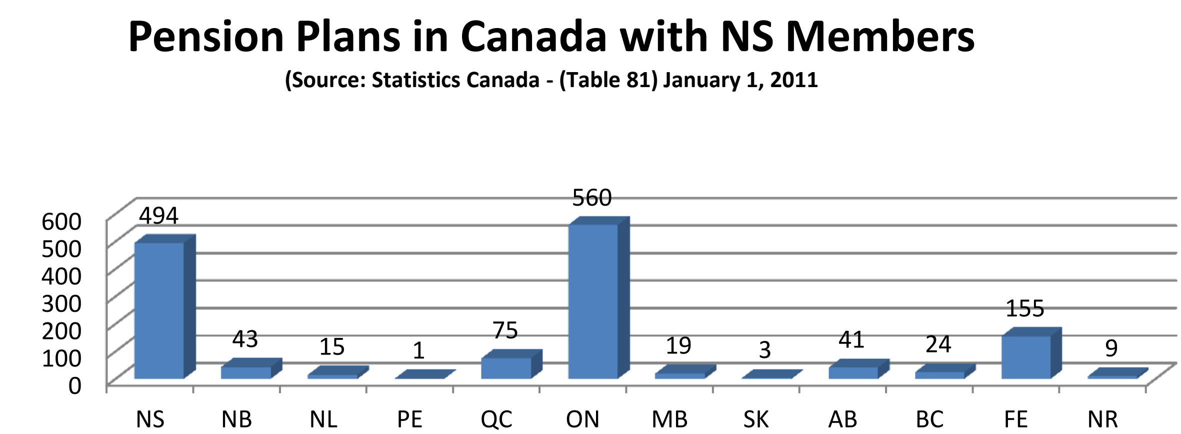


Reflecting the national trend, the number of defined contribution pension plans registered with Nova Scotia increased slightly between 2002 and 2011 to 337 plans. Defined benefit pension plans increased by 23.6% from 2002 to 2011 to 152 plans. These plans were established primarily for shareholders/owners of companies.

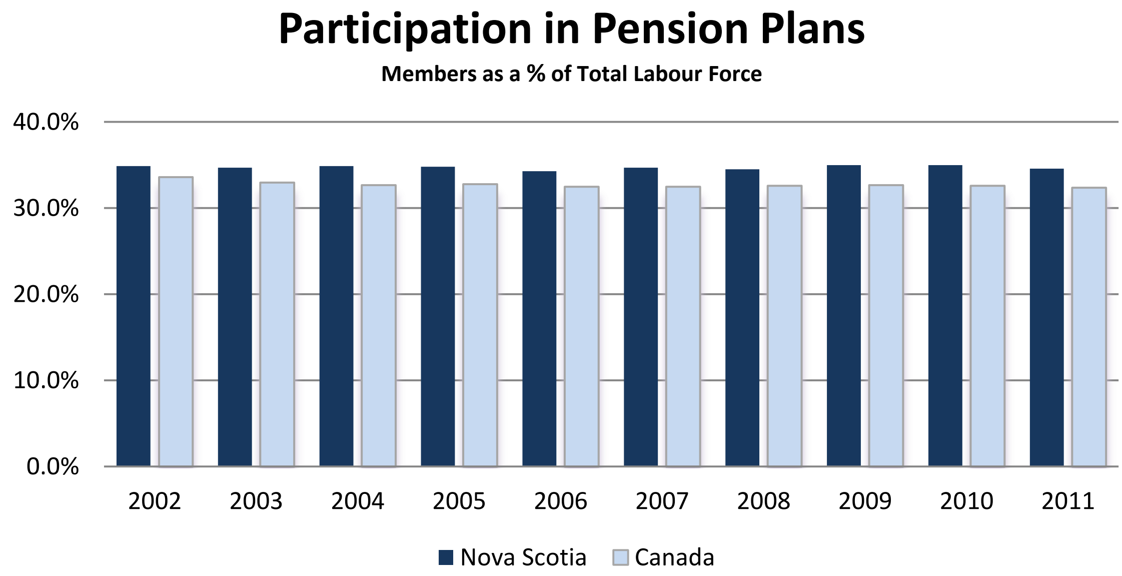
JURISDICTION OF PLAN MEMBERSHIP AND MEMBERSHIP COVERAGE

As of January 1, 2011, there were 1,439 pension plans in all jurisdictions covering 175,625 Nova Scotia Employees. The Division supervised 496 plans covering 106,911 members; 23,892 of these members were employed in other provinces. FE refers to Federal plans and NR means plans that are not registered.

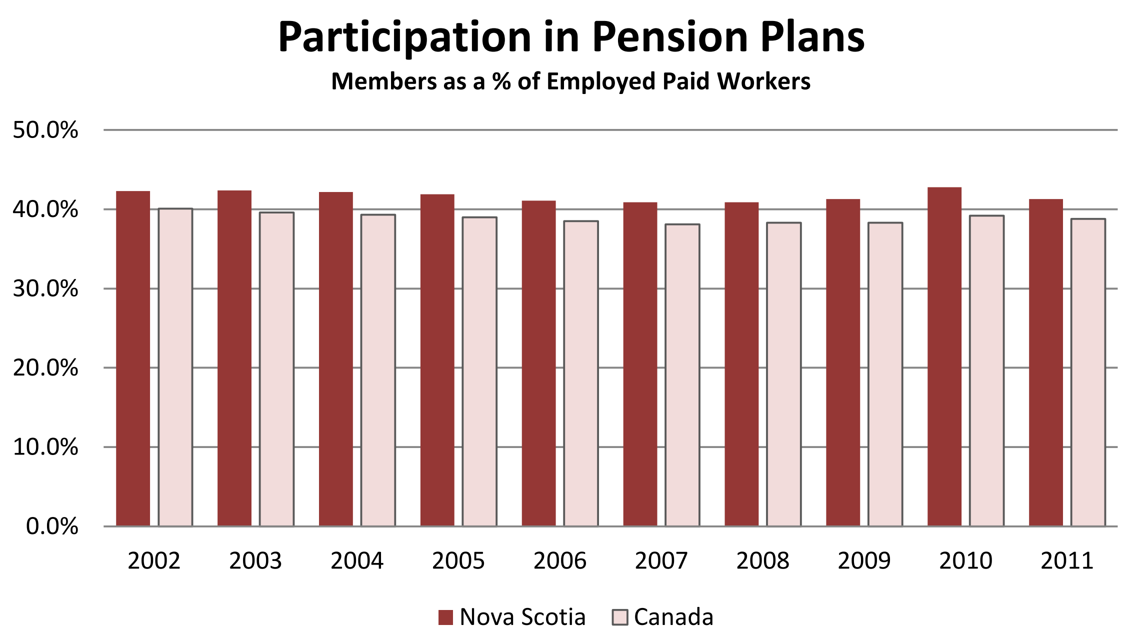




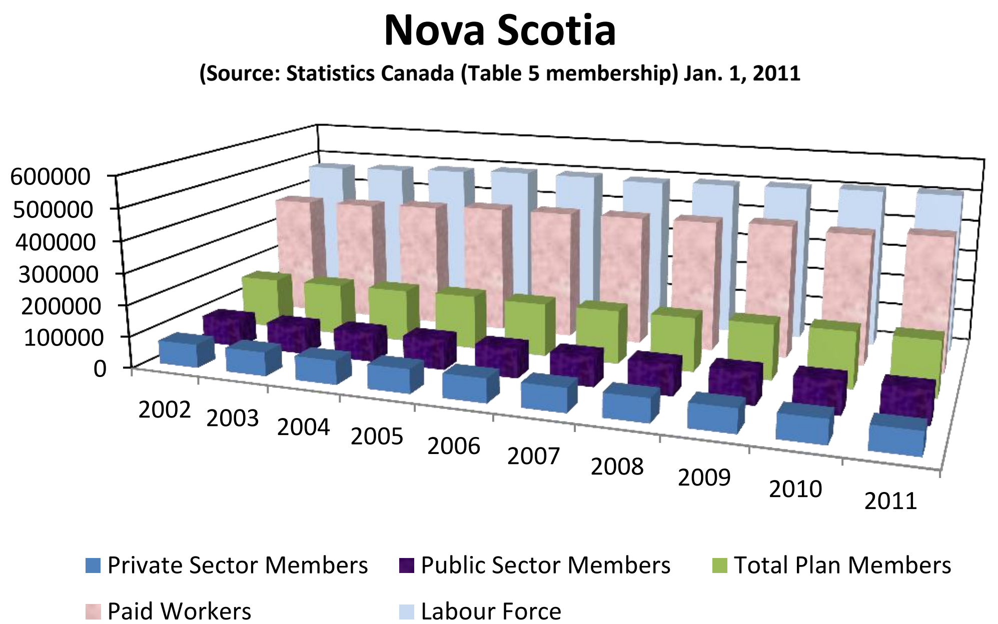
Plans that are not registered include the provincial plans for Civil Servants, Teachers, Judges, Members of the Legislature, and employees of Sydney Steel, as well as federal plans for the Canadian Forces, the RCMP, the Federal Public Service and the Members of Parliament.



As shown in these two graphs, participation by Nova Scotians in pension plans has not varied significantly since 2002. Currently in Nova Scotia, 34.6% of the total labour force and 41.3% of employed paid workers participate in pension plans. These numbers for Canada as a whole are 32.4% and 38.8% 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.



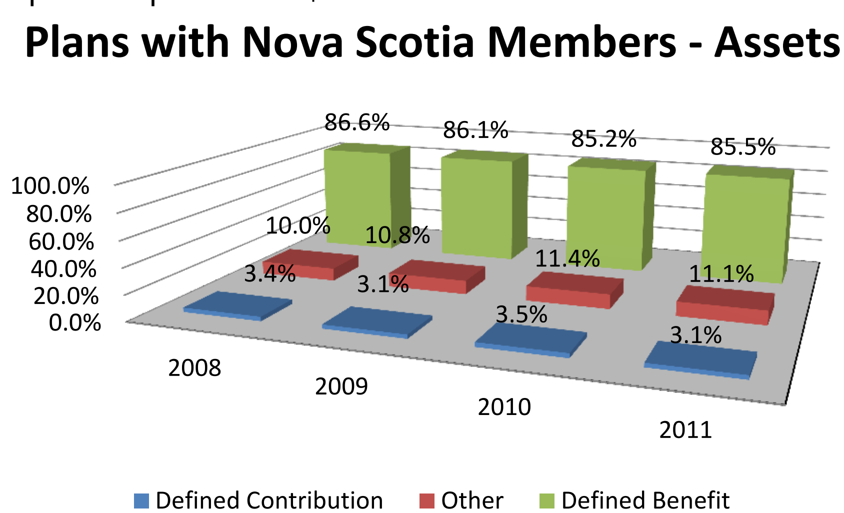
Nova Scotia has a higher than average proportion of paid workers in the public sector, where pension coverage is very high. Currently 59.1% of Nova Scotia pension plan members are employed in the public sector, as illustrated in the following chart:



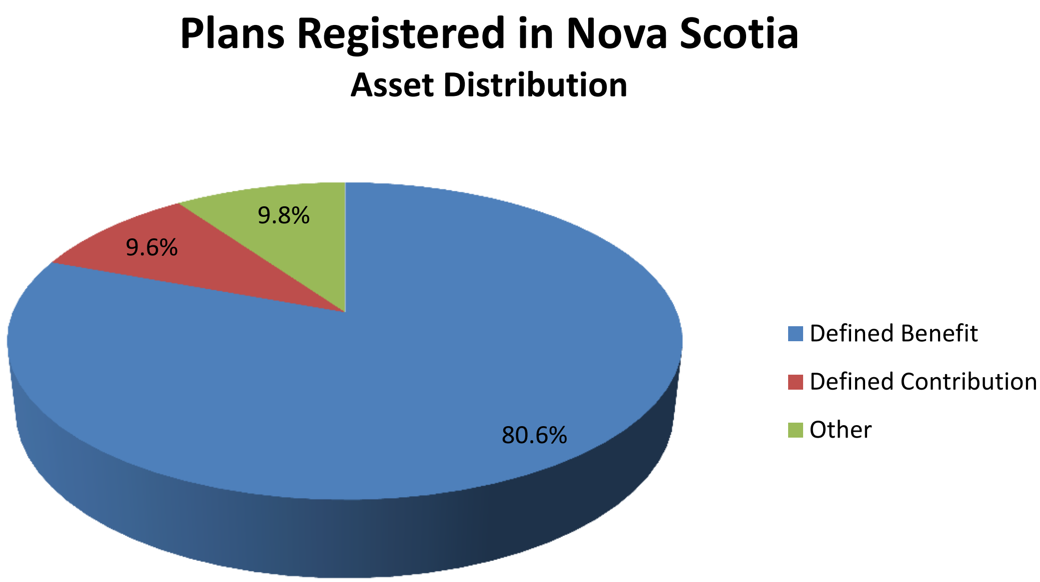
During the period 2002 to 2011, the number of pension plan members in Nova Scotia in the private sector decreased by 3.4%, compared with a 16.5% increase in the public sector.

ASSET ANALYSIS

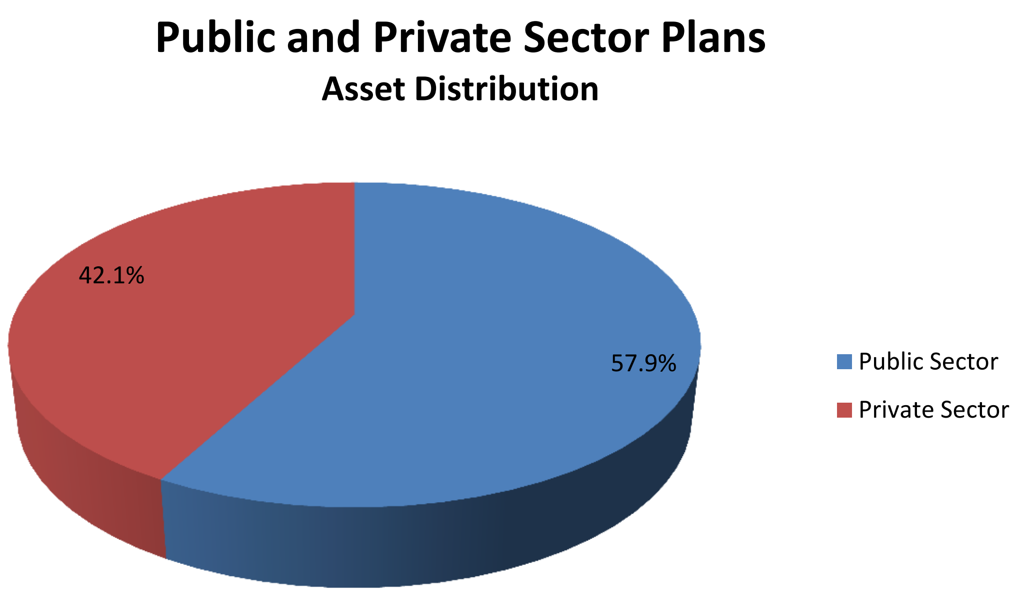
As of January 1, 2011, defined benefit plans with Nova Scotia members held $371 billion in assets. Defined contribution plans held $14.6 billion and composite or combination pension plans held $48.3 billion.



A total of $11.3 billion was held in pension plans registered in Nova Scotia as at January 1, 2011. The majority, $9.1 billion, was held in defined benefit plans, with $1.1 billion in defined contribution plans and $1.1 billion in composite/combination plans.



For pension plans with members employed in Nova Scotia, public sector pension plans' assets were $251.1 billion and private sector plans' assets were $182.8 billion.



Of the $433.9 billion in assets held in pension plans with Nova Scotia members as at January 1, 2011, a significant portion of funds was held in non-registered plans (see the definition of non-registered plans on page 16). Plans under the federal and Ontario jurisdictions with Nova Scotia members also held significant assets