Tel: (902) 424-8915
Fax: (902) 424-0648

March 23, 2006

The Honourable Carolyn Bolivar-Getson
Minister of Environment and Labour
P.O. Box 697
HALIFAX, NS   B3J 2T8

Dear Madam:

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, 2005.

Respectfully submitted,

Nancy MacNeill Smith
Superintendent of Pensions

encl.

NMS/mm

REPORT OF THE

SUPERINTENDENT OF PENSIONS

ON THE ADMINISTRATION OF THE

PENSION BENEFITS ACT

FOR THE YEAR ENDING

MARCH 31, 2005

TWENTY-EIGHTH ANNUAL REPORT ON THE ADMINISTRATION OF THE *PENSION BENEFITS ACT* FOR THE PERIOD ENDED MARCH 31, 2005

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 2004 - 2005.

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 Act.

Based on information collected by the Division and provided to Statistics Canada, 90,255 members participated in 455 pension plans regulated by the Division at January 1, 2004.

PENSION BENEFITS STANDARDS LEGISLATION

In addition to the *Pension Benefits Act* of Nova Scotia, pension benefits standards legislation has been enacted by the following governments:

Canada — *Pension Benefits Standards Act*, effective October 1967. Revised effective January 1, 1987.

Ontario — The *Pension Benefits Act*, 1965, effective January 1, 1965. Revised effective January 1, 1988.

Saskatchewan — The *Pension Benefits Act*, 1967, effective January 1, 1969. Revised effective January 1, 1993.

Quebec *Supplemental Pensions Plan Act*, effective January 1, 1966. Revised effective January 1, 1990.

Manitoba The *Pension Benefits Act*, effective July 1, 1976. Amended January 1, 1990.

Alberta *Employment Pension Plans Act*, effective January 1, 1987. (Replaced the *Pension Benefit Act* which was effective January 1, 1967).

Newfoundland The *Pension Benefits Act*, effective January 1, 1985. Revised effective January 1, 1997.

New Brunswick The *Pension Benefits Act*, effective January 1, 1992.

British Columbia The *Pension Benefits Standards Act*, effective January 1, 1993.

The representatives of those authorities who 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 is an interjurisdictional association of pension supervisory authorities whose mission is to facilitate an efficient and effective pension regulatory system in Canada.

During the year under review, CAPSA met in Ottawa in October 2004. CAPSA members also participated in two conference call meetings held in June 2004 and January 2005. The meetings focused on the development of a model pension law, plan governance, pension plan funding, investment policy and issues relating to the administration of multi-jurisdictional pension plans. CAPSA also considered the revised standards developed by the Canadian Institute of Actuaries for the determination of commuted values which took effect February 1, 2005.

The Governance Guidelines and Self-Assessment Questionnaire were approved by CAPSA at its fall meeting. CAPSA is developing a frequently asked questions document which it expects to release in early 2005.

Meetings were held across Canada in the spring of 2004 on the proposed regulatory principles for a model pension law, which had been released for consultation in January of 2004. A separate but parallel consultation was held in Quebec by the Regie des rentes du Quebec. Consultation closed on June 30, 2004. CAPSA reviewed the comments received during the consultation and divided the principles into three categories. The noncontentious principles primarily relate to plan administration, and minimum entitlements related to benefits. These principles will be reviewed and modified for approval by CAPSA in early 2005. Work on those principles requiring substantial development will be addressed through existing committees where work is currently underway. Work on the highly contentious principles will be deferred.

Representatives of CAPSA also participate in the Joint Forum of Market Regulators. The Joint Forum discusses issues of common interest among Canadian securities, insurance and pension regulators arising from the growing integration of the financial services sector. The guidelines for Capital Accumulation Plans developed by the Joint Forum were approved in May 2004. The Guidelines are voluntary in nature, but it is expected that registered pension plans with capital accumulation components will operate in accordance with the Guidelines by December 31, 2005. The Joint Forum released practice standards for the sale of products and services by all financial intermediaries in January 2005. It has also completed its review of the submissions to the consultation paper released in February 2003 proposing changes in the way information about their investment choices is communicated to consumers of segregated funds and mutual funds. The next steps include the development of mock-up point of sale documents, and plain language and focus group testing.

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.

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 of Pensions. Data from a joint Annual Information Return on pension plans is collected by the Superintendent of Pensions and shared with CRA.

LEGISLATIVE/REGULATORY REVIEW

Under the *Pension Benefits Act*, plan administrators are required to provide members not yet eligible for early retirement with the right to "grow in" to unreduced, early retirement benefits that may be provided under a pension plan, where that defined benefit pension plan is winding up. The funding of "grow-in" benefits increases the contributions required by plan sponsors and employees at a time when defined benefit plans are making additional payments to bring the plan to full funding, following the decline in the financial markets. This funding pressure for a benefit paid only on plan wind-up means money is set aside for an event that may never materialize.

The Government responded to the funding concerns of plan sponsors and members by amending the Pension Benefits Regulations on December 9, 2004 under Order in Council 2004-487 to remove the requirement to fund "grow-in" benefits under a solvency valuation. In this amendment to the regulations, "grow-in" provisions continue to apply on full or partial pension plan wind-up; however, their priority on pay out would be second to the basic pension that all employees would receive. "Grow-in" benefits would only be paid out if there were sufficient assets in the fund at the time of wind up of a plan to provide for those benefits. The "grow-in" provisions do not exist in any other provincial jurisdiction in Canada, other than Nova Scotia and Ontario.

SUPERINTENDENT'S DECISIONS / HEARINGS / APPEALS

<u>Halifax Regional Municipality Pension Committee</u>

On April 27th, 2004, the Superintendent issued an order to the Halifax Regional Municipality Pension Committee to stop charging members a $500 fee for transfers of benefits to or from the Halifax Regional Municipality Pension Plan, from or to another pension plan, under a reciprocal transfer agreement. An appeal of that decision was heard in the Trial Division of the Supreme Court on October 25, 2004. In his decision, released January 20, 2005, Justice Gerald R. P. Moir determined a transfer made under a reciprocal transfer agreement is not a transfer made under Section 50(1) of the *Pension Benefits Act* and that the fee is not prohibited by statute, and is authorized by the terms of the plan.

<u>Dalhousie University</u>

The Board of Governors of Dalhousie University made an application to Court asserting that a decision of the Superintendent not to issue an order to the Board should be given the status of a proposed order under the *Pension Benefits Act*. The Board also asserted that the Superintendent's finding, that the Board had no right to a reconsideration of her decision in the absence of a proposed order, effectively constituted a reconsideration decision that could be the subject of an appeal to the Supreme Court of Nova Scotia. The Dalhousie University Faculty submitted that the Court did not have the jurisdiction to hear the appeal by the Board of Governors under Section 89(9) of the *Pension Benefits Act*. In his decision on January 13, 2005, Justice Coughlan determined that the Superintendent's correspondence to Dalhousie University did not constitute an order under the *Pension Benefits Act* and was therefore not subject to appeal.

OPERATION OF THE DIVISION

As at March 31, 2005, the Division was responsible for the supervision of 488 pension plans. Twenty-seven applications for registration were received during the fiscal year and eleven of the filed plans were in the process of being wound up.

SUMMARY OF PENSION PLANS APPROVED, TRANSFERRED, OR TERMINATED TO MARCH 31, 2005

Active Plans On File as at March 31, 2004	481
New Plans Filed	27
Plans Transferred From Other Jurisdictions	1
Plans Terminated	-20
Plans Transferred To Other Jurisdictions	-1
Active Plans On File as at March 31, 2005	488
Deduct: Plans In Process of Registration	-22
Registered Plans	466

A total of 21 Certificates of Registration were issued. Twelve plans submitted prior to April 1, 2004, and 10 submitted in 2004/2005 require further documentation and/or amendments before they will be accepted for registration.

The Division received 1,003 pieces of correspondence during the 2004/2005 period, and responded within an average of 41 days. In the 2003/2004 period, the division's average response time was 51 days in respect of 1,632 submissions.

Three hundred thirty-six pension plan documents were approved during the fiscal year.

A refund to the employees of surplus of $78 was made in respect of one terminated plan.

As of April 1, 2004, there were 125 approved Life Income Funds on the Superintendent's List of Approved Life Income Fund Arrangements. As of March 31, 2005, there were 148 on the List.

The following table shows that during the period under review, 20 pension plans were terminated covering 794 employees. There was no loss of pension coverage for the 682 members of plans merged with another. There were 4 partial plan terminations affecting 157 members.

TERMINATED PENSION PLANS

REASON	# OF PLANS	# OF ACTIVE MEMBERS
No members left	4	0
Financial difficulty/bankruptcy	2	6
Merged with another	10	682
Replaced with Group RRSP	2	41
No reason given	2	65
TOTAL	**20**	**794**

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.

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

Based on the Returns filed with the Division, total contributions for 2004 were $430,485,008, up from $370,259,685 in 2003.

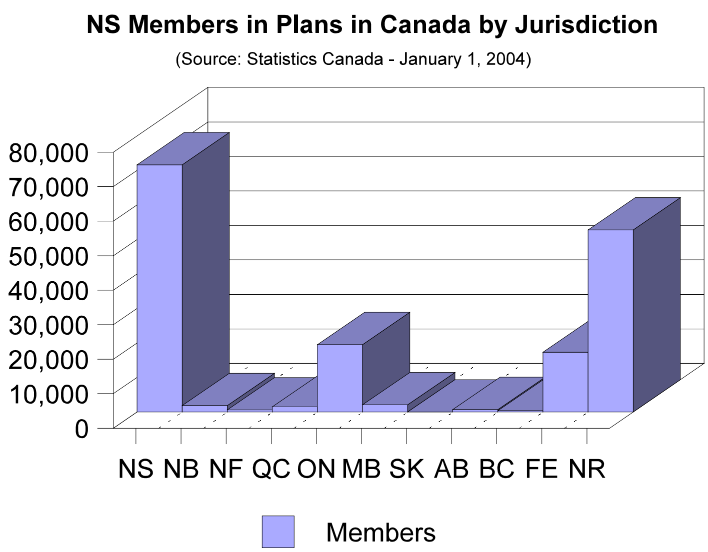
The employee and employer contributions to pension plans under supervision for the year ending December 31, 2004, were as follows:

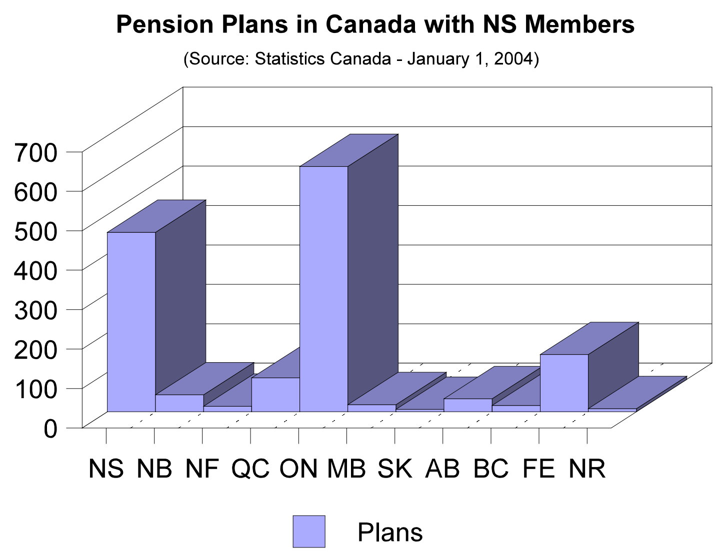
2004 CONTRIBUTIONS:

Employee Required Contributions	$131,899,244	
Employee Voluntary Contributions	$ 8,672,281	
TOTAL EMPLOYEE CONTRIBUTIONS -	$140,571,525	$140,571,525
Actual Employer Current Service Contributions	$202,525,553	
Employer Contributions made from Surplus	$ 3,439,797	
TOTAL EMPLOYER CURRENT SERVICE CONTRIBUTIONS -	$205,965,350	
Employer Special Payments	$ 83,948,133	
TOTAL EMPLOYER CONTRIBUTIONS -	$289,913,483	$289,913,483
TOTAL CONTRIBUTIONS		**$430,485,008**

JURISDICTION OF PLAN MEMBERSHIP AND MEMBERSHIP COVERAGE

Information provided by Statistics Canada based on information collected by the Division indicates that as of January 1, 2004, there were 1,446 pension plans in all jurisdictions covering 168,437 Nova Scotia Employees. The Division supervised 455 plans covering 90,255 members; 18,618 of these members were employed in other provinces.

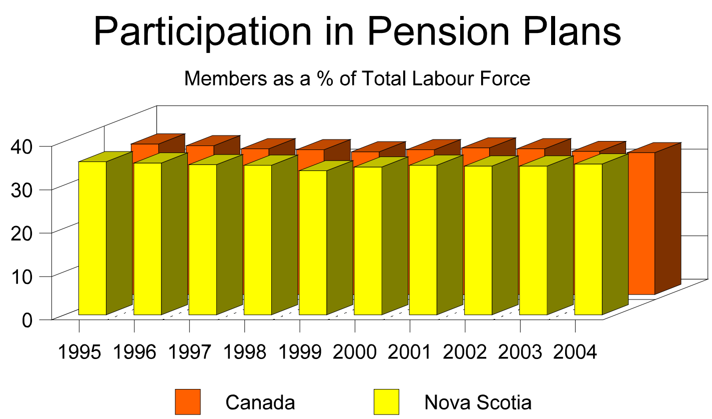


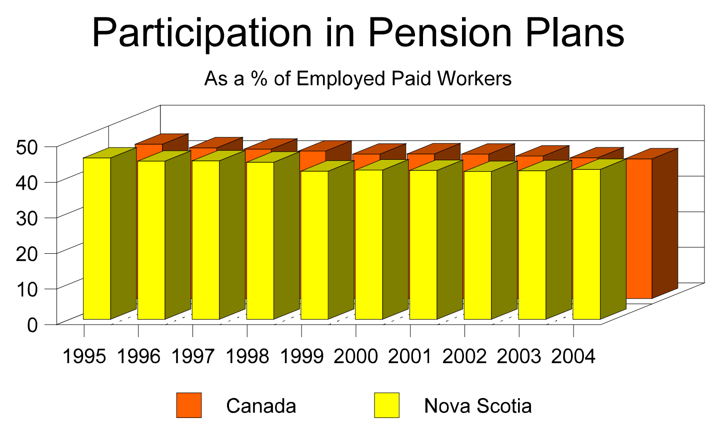


FE - Federal

N/R Not registered - these plans 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.

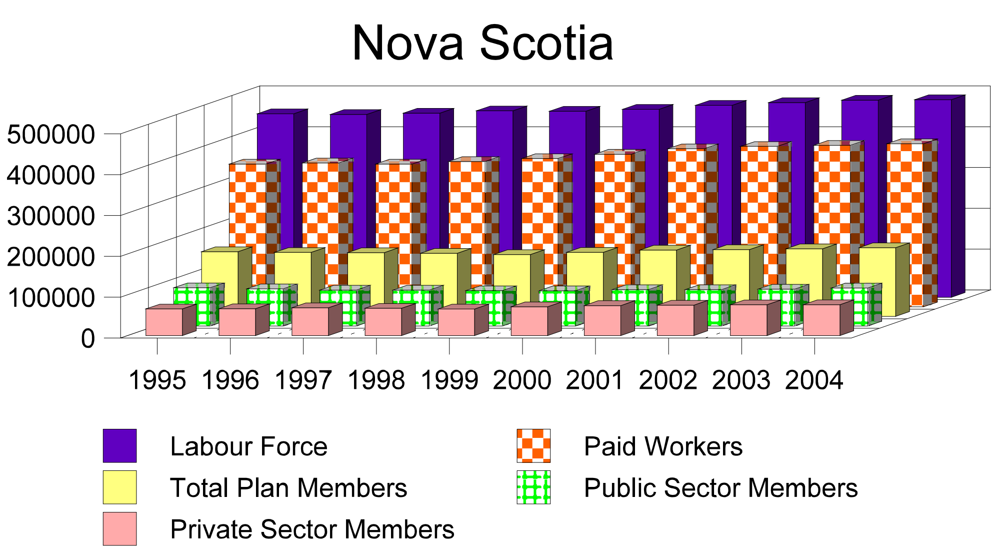
As shown below, participation of Nova Scotians in pension plans has declined slightly since 1995. Currently in Nova Scotia, 34.8% of the total labour force and 42.2% of employed paid workers participate in pension plans. Note that with respect to labour force coverage, pension plan membership is potentially available to paid workers only; self-employed owners of unincorporated businesses, unpaid family workers and the unemployed are not eligible for membership.





(Source: Statistics Canada) **(Excludes self-employed & unpaid family workers)**

Nova Scotia has a higher than average proportion of paid workers in the public sector, where pension coverage is very high. Currently 55.2% of Nova Scotia pension plan members are employed in the public sector, as illustrated in the following chart:



During the period 1995 to 2004, the number of pension plan members in Canada, in the private sector, grew 16%, compared with 0.7% decline in the public sector.

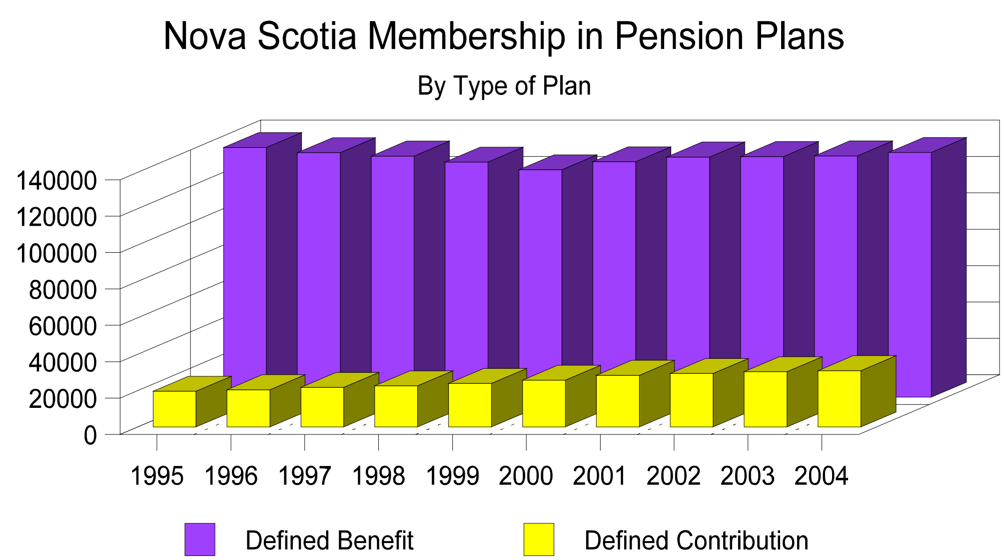
TYPES OF PLANS

Basically there are two main types of pension plans; a defined contribution/money purchase type; or a defined benefit type.

Under a defined contribution/money purchase 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.

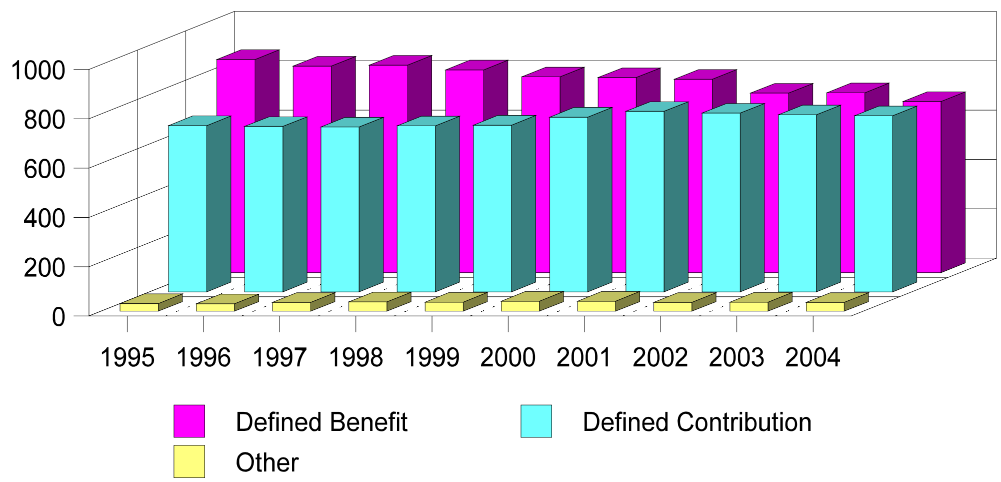
A defined benefit plan contains a specific formula as to the amount of pension each member is to receive. Effectively, the employer/administrator guarantees to provide this level of benefits and it is necessary for an actuary to estimate periodically how large the fund should be and how much should be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

As of January 1, 2004, there were 30,967 Nova Scotia members participating in defined contribution plans, 134,526 participating in defined benefit plans and 1,388 in other composite/combination plans.



Membership in pension plans in other than defined benefit and defined contribution is insignificant and has not been included in the above chart. Participation in both types of plans increased between 2003 and 2004.

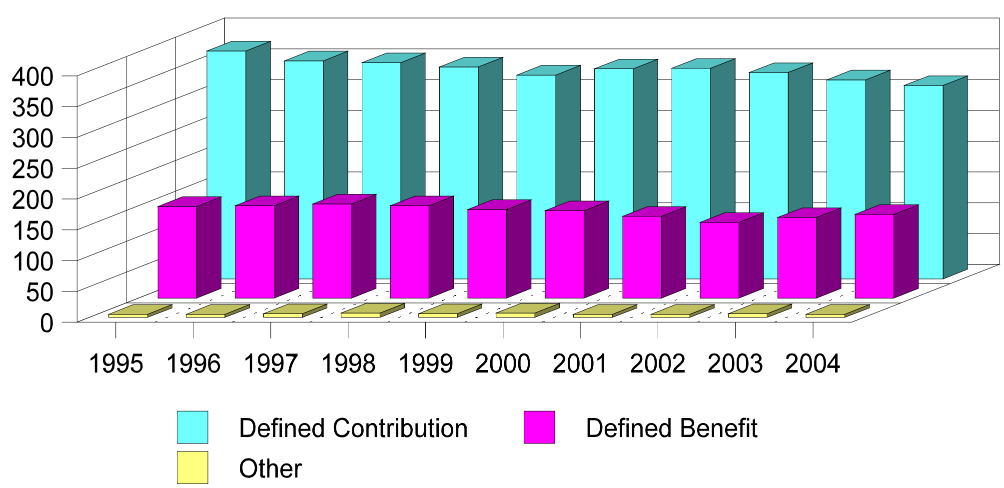
Plans with Nova Scotia Members



The number of defined benefit pension plans with Nova Scotia members declined 20% from 1995 to 2004. The number of defined contribution plans with Nova Scotia members increased by 6%.

The number of defined contribution pension plans registered with Nova Scotia declined 15% between 1995 and 2004.

Plans Registered in Nova Scotia



REVENUE AND EXPENDITURE FOR THE YEAR ENDED MARCH 31, 2005

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 $5.00 for each member of the pension plan in Nova Scotia, or in a designated province, with a minimum fee of $100.00. The maximum fee is $7,500.00. 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 $1,000.00. A fee of $250.00 is charged for amendments to Life Income Funds specimen contracts.

The revenue derived from fees charged in respect of Applications for Registration, Annual Information Returns and Life Income Funds, amounted to $332,472.

Direct operating costs for the Division for the fiscal year 2004/2005 were $187,299. Note that overhead costs are not included in direct operating costs.