

**PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
FINANCIAL STATEMENTS
MARCH 31, 2002**

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AUDITOR-S REPORT

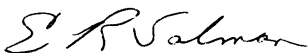
*To the Members of the Legislative
Assembly of Nova Scotia, and*

To the Minister of Finance

I have audited the Statement of Net Assets Available for Benefits and Accrued Pension Benefits and Deficiency of the **Nova Scotia Public Service Superannuation Fund** as at March 31, 2002 and the Statement of Change of Net Assets Available for Benefits for the period then ended. These financial statements are the responsibility of the Fund=s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and deficiency of the Fund as at March 31, 2002 and changes in net assets available for benefits for the period then ended in accordance with Canadian generally accepted accounting principles.



E.R. Salmon, FCA
Auditor General

Halifax, Nova Scotia
September 27, 2002

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
AND ACCRUED PENSION BENEFITS AND DEFICIENCY
AS AT MARCH 31

	2002	2001
	(in thousands)	
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (Note 3)	\$ 2,923,397	\$ 2,912,701
Contributions receivable		
Employees=	1,862	2,034
Employers=	2,039	2,162
Accrued income	23,923	22,369
Net investment transactions outstanding	11,800	-
Cash	<u>560</u>	<u>680</u>
 Total assets	 <u>2,963,581</u>	 <u>2,939,946</u>
Liabilities		
Net investment transactions outstanding	-	9,625
Accounts payable	<u>16,540</u>	<u>16,570</u>
Total liabilities	<u>16,540</u>	<u>26,195</u>
 Net assets available for benefits	 2,947,041	 2,913,751
 Actuarial asset value adjustment (Note 4)	 <u>955</u>	 <u>1,000</u>
Actuarial value of net assets available for benefits	<u>\$ 2,947,996</u>	<u>\$ 2,914,751</u>
 ACCRUED PENSION BENEFITS AND DEFICIENCY		
Accrued pension benefits	\$ 3,128,720	\$ 2,970,060
Deficiency (Note 5)	<u>(180,724)</u>	<u>(55,309)</u>
Accrued pension benefits and deficiency	<u>\$ 2,947,996</u>	<u>\$ 2,914,751</u>

APPROVED:



Minister of Finance

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED MARCH 31

	2002	2001
	(in thousands)	
Increase (Decrease) In Assets		
Investment activities (Note 3)	\$ <u>127,078</u>	\$ <u>(90,835)</u>
Contributions		
Employers= - matched	34,070	32,486
Employees= - matched	34,070	32,486
Employees= - unmatched	301	263
Interest on the purchase of prior years= service	1,391	1,697
Transfers from other pension plans	<u>4,788</u>	<u>8,302</u>
	<u>74,620</u>	<u>75,234</u>
Total increase (decrease) in assets	<u>201,698</u>	<u>(15,601)</u>
Decrease In Assets		
Benefits paid	143,061	135,667
Operating expenses (Note 6)	7,486	7,301
Refund of contributions and interest and transfers to other pension plans	<u>17,861</u>	<u>16,831</u>
Total decrease in assets	<u>168,408</u>	<u>159,799</u>
Increase (Decrease) in Net Assets	33,290	(175,400)
Net Assets Available for Benefits at Beginning of Year	<u>2,913,751</u>	<u>3,089,151</u>
Net Assets Available for Benefits at End of Year	<u>\$ 2,947,041</u>	<u>\$ 2,913,751</u>

See accompanying notes to financial statements.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2002

1. Authority and Description of Plan

The Public Service Superannuation Fund (the Fund) was established by the Public Service Superannuation Act (the Act). It is the funding vehicle for the Public Service Superannuation Plan (the Plan), a pension plan which covers employees of the Province and certain other public sector organizations. The detailed provisions of the Plan, including pension eligibility criteria and benefit formulas are also contained in the Act and in the Regulations made under the Act.

Employee and employer contributions and investment earnings are credited to the Fund. Pensions, payments to terminating employees and administration expenses are charged to the Fund. The Minister of Finance is trustee of the Fund which is invested in federal, provincial, municipal and corporate securities which qualify as eligible investments under the Provincial Finance Act.

The Plan is funded by employee and matching employer contributions of 5.4% of salary up to the Year's Maximum Pensionable Earnings (YMPE) per the Canada Pension Plan (CPP) and 7% of salary above the YMPE. The basic pension formula is 2% for each year of pensionable service times the number of years of pensionable service. Pensions are integrated with CPP benefits at age 65. Pensions in pay and deferred pensions are increased on January 1 of each year at a rate equal to the increase in the Consumer Price Index for Canada to a maximum of 6%.

Plan members are eligible for a pension upon reaching any of the following criteria:

- ▶ age 50 with an age plus pensionable service factor of 80 - "Rule of 80"(active members only; legislative amendments were enacted May 30, 2002 with retroactive application to January 1, 2002, applying this provision to deferred pensioners);
- ▶ age 55 with two years of service (reduced pension);
- ▶ age 55 with an age plus pensionable service factor of 85 - "Rule of 85"(deferred pensioners; see comment on "Rule of 80" above);
- ▶ age 60 with two years of service;
- ▶ age 65

Certain pension payments are attributable to previous early retirement programs and other unfunded benefits. They are charged to the Consolidated Fund of the Province and participating employers and are not paid from the Fund. These payments amounted to \$15.8 million for the year ended March 31, 2002 (2001 - \$15.5 million).

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2002

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

These financial statements are prepared on the going-concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity. In the event there are insufficient funds within the Fund to make all payments required by the Act, the Province of Nova Scotia guarantees cash flow assistance. They are prepared in accordance with Canadian generally accepted accounting principles.

(b) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the trade dates of the transactions. The market value of foreign investments and cash balances held at year end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in unrealized investment income.

(c) Investments

- (i) Investments are reported as of the trade date and are stated at market value. Market value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.
- (ii) The derivative contracts held by the Fund at year end are recorded at market value with the resulting gains or losses being recognized in unrealized investment income.
- (iii) Investments include debentures of the Province of Nova Scotia and the Nova Scotia Municipal Finance Corporation with total market value of \$44.2 million (1.5% of Total Assets) as at March 31, 2002 (\$57.4 million (2.0% of Total Assets) as at March 31, 2001).

(d) Actuarial Value of Net Assets Available for Benefits

The fund values assets, using a technique known as **Actuarial Smoothing**, whereby the actuarial asset values are adjusted to reflect the portion of investment gains or losses (relative to actuarial assumptions) not yet recognized for purposes of determining the net assets available for benefits. The adjustment is based on the difference between the market value of assets and what the market value would have been if the fund had earned the assumed rate of return, and is amortized over the current year and the following two years. This adjustment is subject to the condition that the actuarial asset value will not be greater than the fair market value of investments.

PROVINCE OF NOVA SCOTIA
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2002

3. Investments and Derivatives

The investment objectives of the Plan are to provide long-term security of pension benefits to members and to minimize any increases in contributions required by members and the employers. A strategy of investing in assets of Canadian and foreign equities, bonds, debentures, mortgages and money market securities is aimed at achieving these objectives.

(a) Market value of investments and related income before allocating the effect of derivative contracts.

	<u>As at March 31, 2002</u>		<u>For the Year</u>	<u>As at March 31, 2001</u>		<u>For the Year</u>
	Asset	%	Income (Loss)*	Asset	%	Income (Loss)*
	(in thousands)					
Money market	\$ 234,636	8.0%	\$ 8,374	\$ 307,874	10.6%	\$ 18,863
Fixed income	1,057,207	36.2%	57,721	1,113,667	38.2%	96,284
Equities						
- Canadian	832,435	28.5%	73,045	767,651	26.4%	(76,223)
- US	544,789	18.6%	3,686	461,370	15.8%	(5,395)
- Other foreign	252,246	8.6%	(14,321)	276,684	9.5%	(105,044)
Derivatives	2,084	0.1%	(1,489)	(14,545)	(0.5)%	(19,355)
Other	-	0.0%	62	-	0.0%	35
	<u>\$ 2,923,397</u>	<u>100.0%</u>	<u>\$ 127,078</u>	<u>\$ 2,912,701</u>	<u>100.0%</u>	<u>\$ (90,835)</u>

* Includes realized losses of \$25.4 million (gains of \$320.3 million - 2001) and unrealized gains of \$69.6 million (losses of \$544.8 million - 2001).

(b) Derivative Contracts

Derivatives are financial contracts, the value of which is 'derived' from the value of underlying assets or interest or exchange rates. Derivatives provide flexibility in implementing investment strategy. Money market-to-equity swaps have been used during the year to adjust the asset mix.

The following provides details of the derivative money market-to-equity swap contracts outstanding as at March 31, 2002. Notional amounts of derivative contracts represent the volume of outstanding transactions and serve as the basis upon which the return from and market value of the contracts are determined. These contracts are denominated in Canadian dollars and are reset quarterly.

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3. Investments and Derivatives (Continued)

Notional Principal	Original Term	Credit Rating of Counter-party	Equity Index	BA Index	Market Value
(in thousands)					
\$ 65,227	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	\$ 1,262
65,043	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	(520)
43,467	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	840
<u>16,919</u>	1.0 yr	AA(low)	S&P/TSE60	CAD-BA-CDOR	<u>502</u>
<u>\$ 190,656</u>					<u>\$ 2,084</u>

(c) Market value of investments and related income after allocating the effects of derivative contracts.

	<u>As at March 31, 2002</u>		<u>For the Year</u>	<u>As at March 31, 2001</u>		<u>For the Year</u>
	Asset	%	(Loss) Income*	Asset	%	(Loss) Income*
(in thousands)						
Money market	\$ 43,656	1.5%	\$ 3,225	\$ 121,612	4.2%	\$ 5,537
Fixed income	1,057,207	36.2%	57,721	1,113,667	38.2%	96,284
Equities						
- Canadian	1,025,499	35.1%	76,705	939,368	32.3%	(82,252)
- US	544,789	18.6%	3,686	461,370	15.8%	(5,395)
- Other foreign	252,246	8.6%	(14,321)	276,684	9.5%	(105,044)
Other	-	0.0%	62	-	0.0%	35
	<u>\$ 2,923,397</u>	<u>100.0%</u>	<u>\$ 127,078</u>	<u>\$ 2,912,701</u>	<u>100.0%</u>	<u>\$ (90,835)</u>

* Includes realized losses of \$25.4 million (gains of \$320.3 million - 2001) and unrealized gains of \$69.6 million (losses of \$544.8 million - 2001)

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3. Investments and Derivatives (Continued)

(d) Interest rate risk

Interest rate risk refers to the fact that the Plan's financial position will change as market interest rates change. Interest rate risk is inherent in the nature of the pension plan business due to prolonged timing differences between cash flows related to the plan's assets and cash flows related to the plan's liabilities.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. Pension liabilities are exposed to the long-term expectation of rate of return on the investments as well as expectations of inflation and salary escalation. To meet these liabilities the Plan has established an asset mix policy of approximately 60% equities and 40% fixed income securities. Long-term equity returns have historically shown high correlation with changes in inflation and salary escalation, while fixed income securities are sensitive to changes in nominal interest rates. At March 31, 2002 the \$1,057.2 million fixed income securities had a modified duration of 5.3 years. This means a 1% decrease in nominal interest rates would increase their market value by approximately 5.3%.

(e) Credit risk

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss.

The Plan limits credit risk by purchasing fixed income securities with a credit rating of **ABBB@** and higher. In addition, the Plan limits derivative contract risk by dealing with counterparties that have a minimum "A" credit rating.

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3. Investments and Derivatives (Continued)

(f) Foreign currency risk

Foreign currency exposure arises from the Plan's holding of foreign currency-denominated equities. From time to time some of this exposure will be hedged based on interest rates or other economic fundamentals

The Plan's foreign currency exposure is summarized in the following table.

<u>Currency</u>	<u>March 31, 2002</u>	<u>March 31, 2001</u>
	(in thousands)	
Canada	\$ 2,143,363	\$ 2,180,768
Eurozone	63,021	105,141
Japan	26,894	24,885
United Kingdom	40,101	41,611
United States	581,011	495,116
Other	<u>93,490</u>	<u>88,229</u>
Total	<u>\$ 2,947,880</u>	<u>\$ 2,935,750</u>

**PROVINCE OF NOVA SCOTIA
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4. Actuarial Asset Value Adjustment

The actuarial asset value adjustment is comprised of the following:

	2002	2001
	(in thousands)	
Service Buy-back Receivable	<u>\$ 955</u>	<u>\$ 1,000</u>

(a) Unamortized Investment Gains and Losses

The net assets available for benefits is subject to an actuarial asset value adjustment which moderates the effects of market volatility on investment value. The adjustment is based on the difference between the market value of assets and what the market value would have been if the fund had earned the assumed rate of return, and is amortized over the current year and the following two years. The actuarial asset value adjustment reflects the portion of investment gains or losses (relative to actuarial assumptions) not yet recognized for purposes of determining the net assets available for benefits. This adjustment is subject to the condition that the actuarial asset value will not be greater than the fair market value of investments.

Unamortized investment (gains) losses were fully amortized at March 31, 2001 as a result of losses from investment activities for the year ended March 31, 2001.

(b) Service Buy-back Receivable

This receivable represents the present value of outstanding employee and employer contributions which are due as a result of service buy-backs.

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5. Actuarial Valuation

Actuarial valuations of the Fund are carried out annually and provide an estimate of the accrued pension benefits (fund liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date. The Plan's consulting actuaries, Morneau Sobeco performed a valuation as at December 31, 2001 and issued their report in June 2002. The report indicated that the Plan had an unfunded liability of \$174.5 million (2000 - surplus \$21.2 million). A projection to March 31, 2002, applying the same assumptions, indicated an unfunded liability of \$180.7 million (March 31, 2001 - \$55.3 million).

The actuarial valuation projects liabilities for each member on the basis of service earned to date and the member's projected five year average salary at the expected date of retirement. The actuaries have used the unit credit method of determining the current cost and actuarial liability. The major economic and demographic assumptions used in the last valuation are as follows:

	Valuation December 31, 2001	Valuation December 31, 2000
Inflation	3.0% per annum	3.0% per annum
Average Salary Increase	0.5% per annum real plus merit ranging from 0.0% to 2.5% based on 5 year age bands	0.5% per annum real plus merit ranging from 0.0% to 2.5% based on 5 year age bands
Real Rate of Return on Investment	4.25% per annum	4.25% per annum
Average Retirement Age	20% - age 55 or ARule of 80" 80% - age 60 or 35 years service	20% - age 55 or ARule of 80" 80% - age 60 or 35 years service
Mortality	1994 Group Annuity Mortality Table projected to 2000 using scale AA	1994 Group Annuity Mortality Table projected to 2000 using scale AA

PROVINCE OF NOVA SCOTIA
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6. Operating Expenses

The Fund is charged with administrative and certain other expenses incurred on behalf of the Fund by the Department of Finance. The following is a summary of these operating expenses.

	2002	2001
	(in thousands)	
Plan Administration		
Professional services	\$ 178	\$ 155
Salaries	657	543
Supplies and services	538	493
Travel	7	6
Other	<u>77</u>	<u>76</u>
	\$ <u>1,457</u>	\$ <u>1,273</u>
Investment Expenses		
Investment management fees	\$ 5,556	\$ 5,591
Professional services	31	56
Salaries	311	307
Supplies and services	70	-
Travel	18	22
Other	<u>43</u>	<u>52</u>
	\$ <u>6,029</u>	\$ <u>6,028</u>
Total Operating Expenses	\$ <u>7,486</u>	\$ <u>7,301</u>

7. Comparative Figures

Certain comparative figures have been reclassified to conform with the financial statement presentation for this year.