REPORT OF THE

SUPERINTENDENT OF PENSIONS

ON THE ADMINISTRATION OF THE

PENSION BENEFITS ACT

FOR THE YEAR ENDING

MARCH 31, 2006

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March 6, 2006

The Honourable Mark Parent
Minister of Environment and Labour
P.O. Box 697
HALIFAX, NS   B3J 2T8

Dear Sir:

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, 2006.

Respectfully submitted,

Nancy MacNeill Smith
Superintendent of Pensions

encl.

NMS/bjb

TWENTY-NINTH ANNUAL REPORT ON THE ADMINISTRATION OF THE *PENSION BENEFITS ACT* FOR THE PERIOD ENDED MARCH 31, 2006

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 2005 - 2006.

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*.

Based on information collected by the Division and provided to Statistics Canada, 93,325 members participated in 479 pension plans regulated by the Division at January 1, 2005.

PENSION BENEFITS STANDARDS LEGISLATION

In addition to the *Pension Benefits Act* of Nova Scotia, pension benefits standards legislation has been enacted by the federal and provincial governments except for Prince Edward Island.

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's mission is to facilitate an efficient and effective pension regulatory system in Canada.

During the year under review, CAPSA met in Toronto in April 2005 and in St. John's in October 2005. CAPSA members also participated in two conference call meetings held in June 2005 and January 2006. 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.

When CAPSA approved the Pension Plan Governance Guidelines and Self-Assessment Questionnaire in October 2004, it made a commitment to develop a series of frequently asked questions and responses that would provide pension plan administrators with general guidance, additional clarification and examples related to the Governance Guidelines. CAPSA released the frequently asked questions document in early 2005.

In 2004 CAPSA held consultations on the proposed regulatory principles for a model pension law. 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 were modified in some cases to address stakeholder concerns and were approved by CAPSA in January 2005. CASPA created a Stakeholder Task Force on the common pension standards to develop detailed policy statements that would support the development of harmonized legislation and regulations. The Task Force was broadly representative of Canadian pension industry stakeholders. Work on those principles that require substantial development will be addressed through existing committees where work is currently underway. Work on the highly contentious principles will be deferred.

CAPSA developed model regulatory principles for the funding of pension plans and consulted with stakeholders from June to November 2005 on those principles.

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 strategic plan for 2005-2008 released in May 2005 identified strategic initiatives in product regulation, intermediary regulation, consumer redress, regulatory mechanisms and consumer information and education.

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. CAPSA is working on the development of a new reciprocal agreement to replace the original agreement which has been in place since 1968.

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

Universities advised the Government that funding their defined benefit pension plans had become onerous following the decline in the financial markets and the continuing low rates of return. The Government reviewed the request of university plan administrators for additional flexibility in funding their plans and amended the Regulations on April 22, 2005 under Order in Council 2005-162. Universities were given a time extension to pay back any solvency deficiencies over 15 years as opposed to 5. This extension applies only to solvency deficiencies that arise prior to January 1, 2006 under university pension plans. If there is a partial wind up of a university plan, due to outsourcing a particular service or terminating a program, immediate and full funding of the benefits payable in respect of those employees is required.

SUPERINTENDENT’S DECISIONS / HEARINGS / APPEALS

Manulife

On October 18th, 2005, the Superintendent issued a proposed order to Manulife regarding the limitation to be used in determining the maximum benefit to be paid under the plan in respect of pre-1992 service for certain former employees. Manulife honoured the terms of the proposed order.

Police Association of Nova Scotia (PANS)

The Towns have refused to remit the required special payments and solvency payments in respect of their police officer employees participating in The Police Association of Nova Scotia Pension Plan (“PANS Plan”). Under the collective agreements between the Towns and PANS, a contribution rate is specified for the Towns to remit to the PANS Plan. The

Towns state their contribution is limited to only the negotiated rate established under the collective agreements, and that they do not have any obligation to remit special payments or solvency payments required under the Pension Benefits Act and the terms of the PANS Plan. The Superintendent issued a proposed order to the Towns on November 5, 2005 for payment of the required special payments and solvency payments. At the Towns' request a reconsideration hearing was held February 27th to March 1, 2006 inclusive. A decision on the hearing was issued by the Superintendent in May 2006 ordering the Towns to make payment of the outstanding contributions.

OPERATION OF THE DIVISION

As at March 31, 2006, the Division was responsible for the supervision of 509 pension plans. Thirty-three applications for registration were received during the fiscal year and 10 of the filed plans were in the process of being wound up.

SUMMARY OF PENSION PLANS APPROVED, TRANSFERRED, OR TERMINATED TO MARCH 31, 2006

Active Plans On File as at March 31, 2005	488
New Plans Filed	33
Plans Transferred From Other Jurisdictions	0
Plans Terminated	-12
Plans Transferred To Other Jurisdictions	0
Active Plans On File as at March 31, 2006	509
Deduct: Plans In Process of Registration	-17
Registered Plans	492

A total of 38 Certificates of Registration were issued. Seven plans submitted prior to April 1, 2005, and 10 submitted in 2005/2006 require further documentation and/or amendments before they will be accepted for registration.

The Division received 896 pieces of correspondence during the 2005/2006 period, and responded within an average of 26 days. In the 2004/2005 period, the division's average response time was 41 days in respect of 1,003 submissions. E-mail submissions were not tracked.

Two hundred forty-four pension plan documents were approved during the fiscal year.

Refunds to the employees of surplus totaling $22,388.75 were made in respect of two terminated plans.

As of April 1, 2005, there were 148 approved Life Income Funds on the Superintendent's List of Approved Life Income Fund Arrangements. As of March 31, 2006, there were 160 on the List.

The following table shows that during the period under review, 12 pension plans were terminated covering 908 employees. There was no loss of pension coverage for the 484 members of plans merged with another. There were 8 partial plan terminations affecting 197 members.

TERMINATED PENSION PLANS

REASON	# OF PLANS	# OF ACTIVE MEMBERS
No members left	1	0
Financial difficulty/bankruptcy	1	14
Merged with another	7	484
Replaced with Group RRSP	1	392
Company sold	1	17
No reason given	1	1
TOTAL	**12**	**908**

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 2005 were $436,834,287, up from $430,485,008 in 2004.

The employee and employer contributions to pension plans under supervision for the year ending December 31, 2005, were as follows:

2005 CONTRIBUTIONS:

Employee Required Contributions	$131,487,719	
Employee Voluntary Contributions	$ 8,354,141	
TOTAL EMPLOYEE CONTRIBUTIONS -	$139,841,860	$139,841,860
Actual Employer Current Service Contributions	$209,569,311	
Employer Contributions made from Surplus	$ 16,532,969	
TOTAL EMPLOYER CURRENT SERVICE CONTRIBUTIONS -	$226,102,280	
Employer Special Payments	$ 70,890,147	
TOTAL EMPLOYER CONTRIBUTIONS -	$296,992,427	$296,992,427
TOTAL CONTRIBUTIONS		**$436,834,287**

Employer contributions made from surplus were $16.5M, up from $3.4M reported for 2004. Employer special payments were $70.9M, down from the $83.9M reported for 2004.

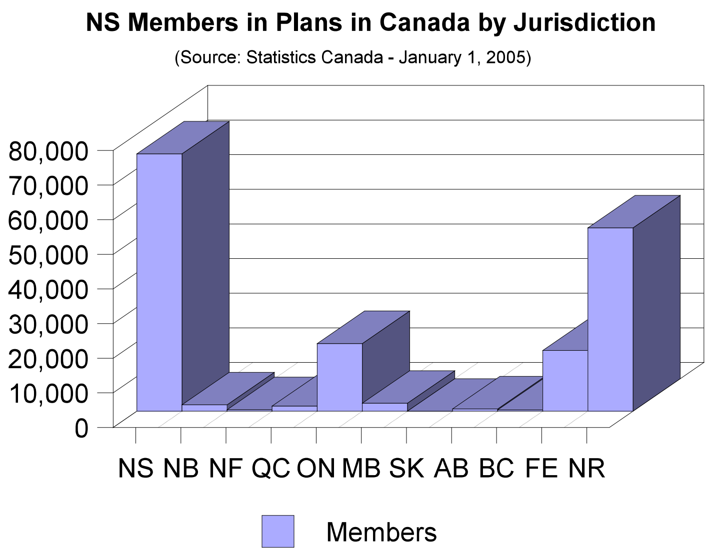
SECURITY OF RETIREMENT INCOME

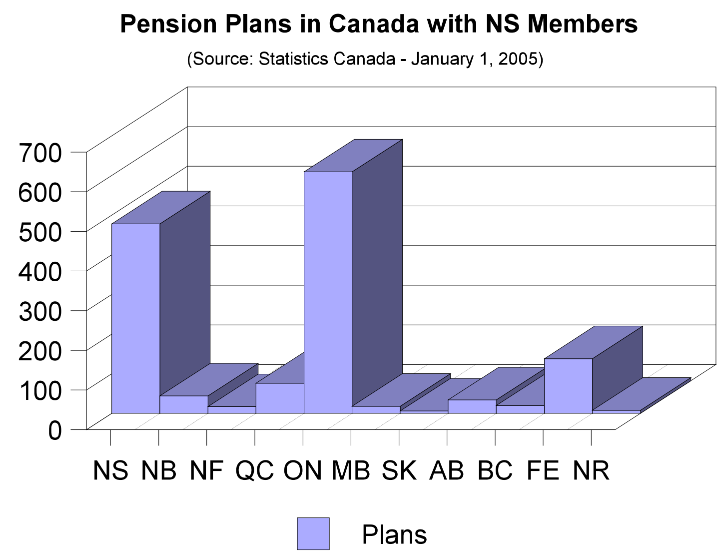
The measure used to determine the security of retirement income for members of private and municipal government pension plans is that of the solvency of the plan. Defined contribution pension plans are solvent by the very nature of the plans, and the solvency of defined benefit plans is measured by through solvency valuations performed by an actuary. If defined benefit plans are not fully solvent, they must have a strategy in place to achieve full solvency funding within 5 years. The removal of the requirement to fund ‘grow-in benefits” in 2004 has improved the solvency position of some defined benefit plans. With the change to the solvency funding requirements for universities, universities have 15 years to fund any solvency deficiency arising prior to January 1, 2006.

Of the plans registered in Nova Scotia in 2001, 93 per cent of members were in plans that were fully solvent. That number had reduced to 82 per cent in 2002, to 69 per cent in 2003 and to 59 per cent in 2004. In 2005, the number of members in plans that were fully solvent had risen to 65 per cent.

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, 2005, there were 1,448 pension plans in all jurisdictions covering 171,582 Nova Scotia Employees. The Division supervised 479 plans covering 93,325 members; 19,021 of these members were employed in other provinces.

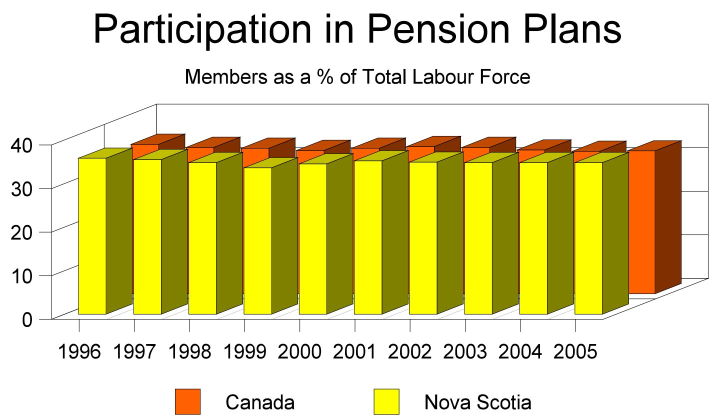


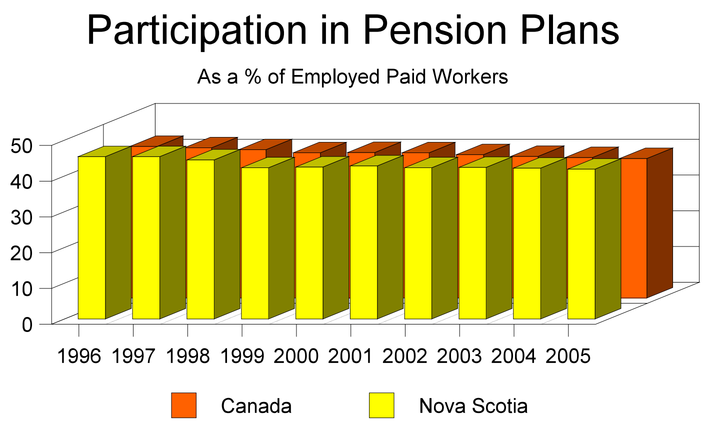


FE - Federal

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 1996. Currently in Nova Scotia, 34.8% of the total labour force and 41.9% 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

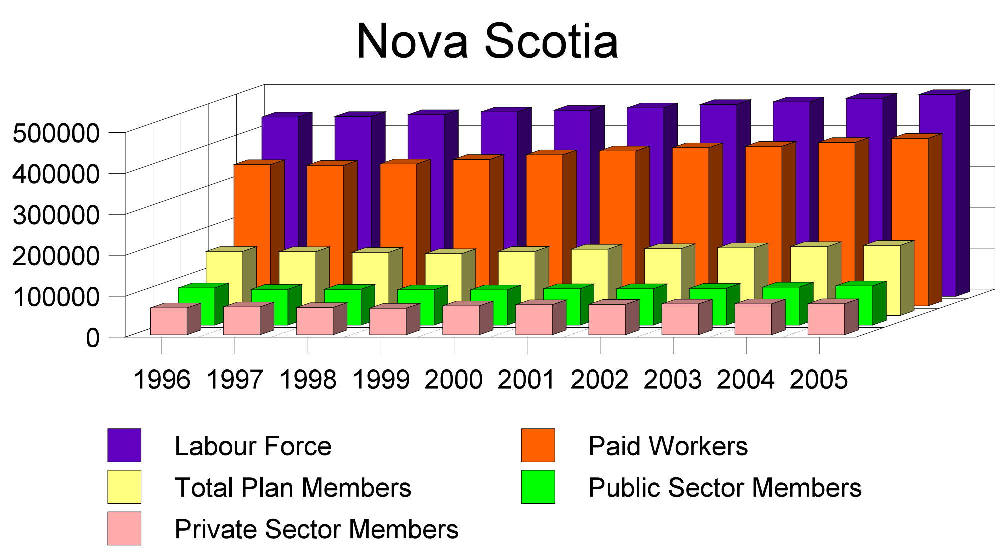




for membership.

(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 55.8% of Nova Scotia pension plan members are employed in the public sector, as illustrated in the following chart:



During the period 1996 to 2005, the number of pension plan members in Nova Scotia in the private sector grew 15%, compared with a 5% increase in the public sector.

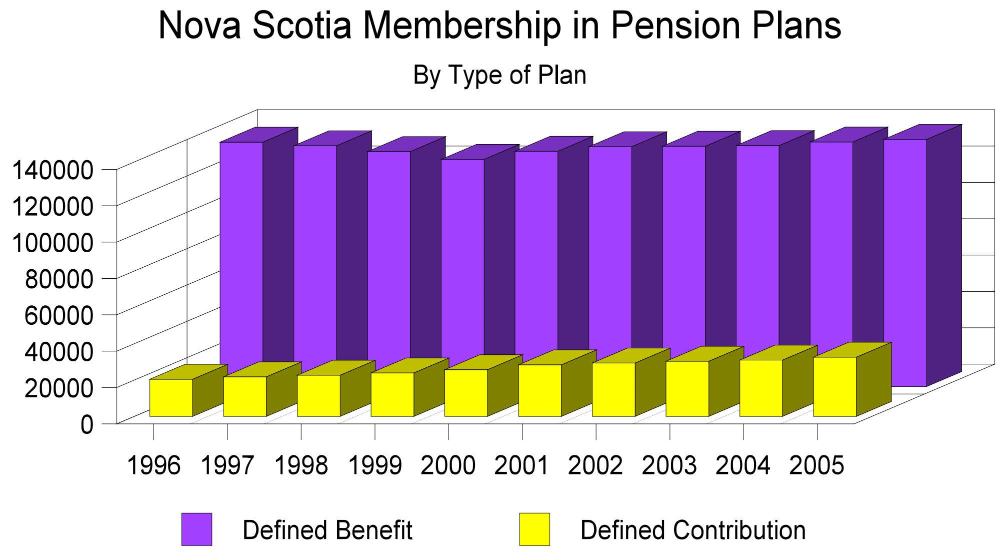
TYPES OF PLANS

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.

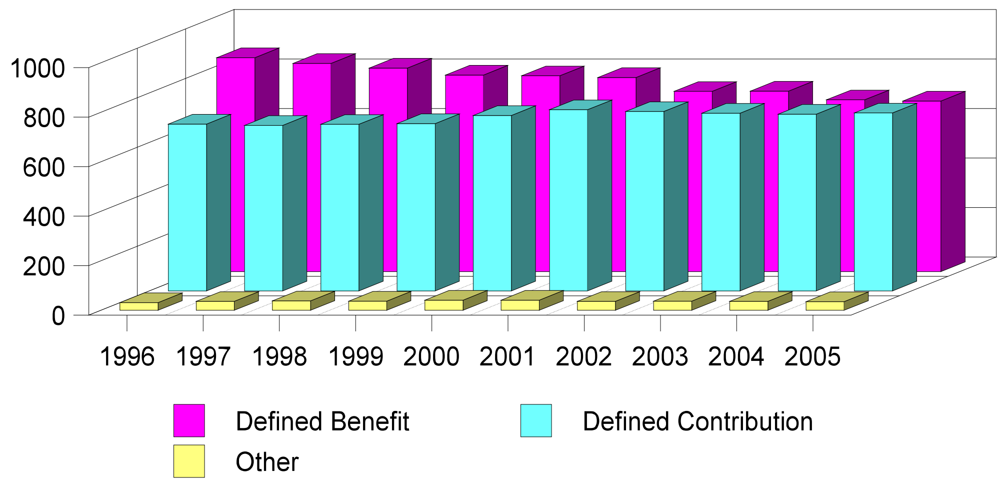
A defined benefit plan contains a specific formula as to the amount of pension each member is to receive. Effectively, the employer/administrator guarantees to provide this level of benefits and it is necessary for an actuary to estimate periodically how large the fund should be and how much should be 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, 2005, there were 32,584 Nova Scotia members participating in defined contribution plans, 135,979 participating in defined benefit plans and 3,019 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 2004 and 2005.

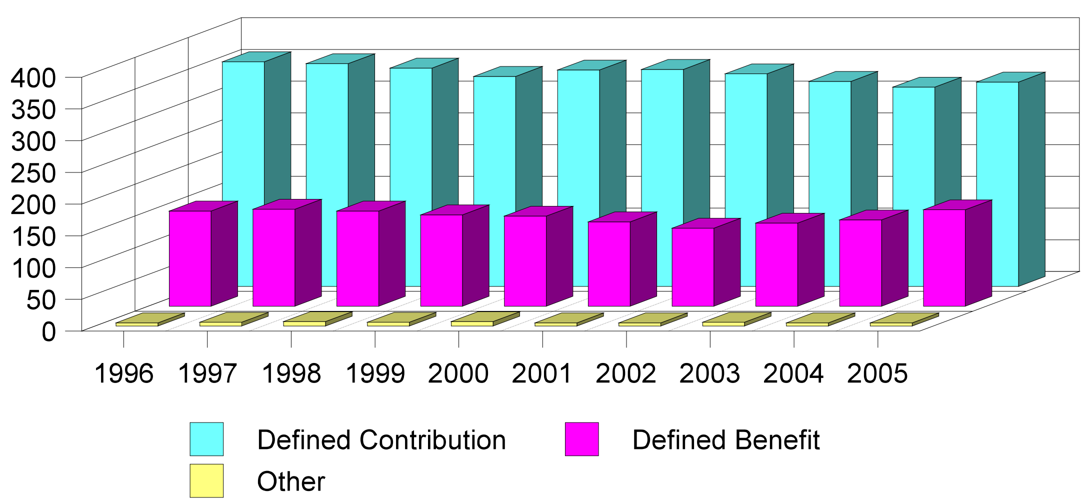
Plans with Nova Scotia Members



The number of defined benefit pension plans with Nova Scotia members declined 20% from 1996 to 2005. The number of defined contribution plans with Nova Scotia members increased by 6.7%.

The number of defined contribution pension plans registered with Nova Scotia declined 9 % between 1996 and 2005.

Plans Registered in Nova Scotia



REVENUE AND EXPENDITURE FOR THE YEAR ENDED MARCH 31, 2006

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 $313,115.

Direct operating costs for the Division for the fiscal year 2005/2006 were $206,755. Note that overhead costs are not included in direct operating costs.