

## Audited Financial Statements

### NOVA SCOTIA PUBLIC SERVICE LONG TERM DISABILITY PLAN TRUST FUND

Notes to Financial Statements for the year ended December 31, 2009

#### 1. OVERVIEW

The Plan was established to provide a long term disability plan for the employees of the Province of Nova Scotia and such other employee groups as approved by the Trustees.

The Plan was established by Order in Council dated September 26, 1985.

The Trust was established by Agreement and Declaration of Trust dated December 23, 1985 and amended November 10, 2004.

Claimants' benefits became effective May 1, 1985 for employees who, at that time, met prescribed eligibility requirements.

#### 2. PLAN AMENDMENTS

The following is a description of Plan amendments effective January 1, 2009:

- The premium rate has been reduced by 25% for all Plan members
- Coverage has been extended to age 65 and over
- Coverage beyond age 63 is limited to two years of benefits
- Covered salary increased from \$120,000 to \$175,000
- Increased benefit from 65% to 70% after three years in receipt of LTD
- Rehabilitation income deducted is reduced from 50% to 35% after five years in receipt of LTD
- The 80% All Source Maximum increased to 90% after five years in receipt of LTD

#### 3. FINANCIAL INSTRUMENTS

The fair value of cash, contributions and other receivables, accrued income, net investment transactions outstanding, and accounts payable approximate their carrying value due to their short-term nature.

The Plan is exposed to a credit risk by its customers and suppliers. However, because of the nature of customers and different suppliers, credit risk concentration is reduced to a minimum.

#### 4. ACCOUNTING POLICIES

##### Investments

Marketable securities are stated at market value.

##### Amortization of equipment and furnishings

The Plan records amortization of the equipment and furnishings at the annual rate of 30% using the declining balance method. Amortization is calculated at one-half of the normal annual rate in the year of acquisition; no amortization is recorded in the year of disposal.

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#### Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires the Plan's management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Actual results may differ from these estimates. The primary estimates made by management relates to the allowance for doubtful accounts, and amortization of equipment and furnishings.

#### Revenue recognition

Revenue from premiums and EI premium rebates are recognized as they become receivable. Investment income comprises dividends, interest and realized and unrealized gains.

#### Benefits

Benefit payments to Plan members are recorded in the period in which they are paid.

## 5. INVESTMENTS

Investments include marketable securities, accrued interest thereon and the custodian's account balance. The investments are recorded at market value.

	2009	2008
Market Value	\$89,620,508	\$70,133,507
Cost	\$90,320,238	\$79,946,566

## 6. EQUIPMENT AND FURNISHINGS

	2009			2008
	COST	ACCUMULATED AMORTIZATION	NET	NET
Computer/office equipment	\$110,572	\$86,579	\$23,993	\$20,637
Software	9,109	7,456	1,653	2,361
	<b>\$119,681</b>	<b>\$94,035</b>	<b>\$25,646</b>	<b>\$22,998</b>

## 7. PREMIUMS

Employee and employer premiums are collected and remitted by the employer. Premiums are recorded in the period in which payroll deductions are made by the employer.

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#### 8. ACTUARIAL VALUATION

The most recent actuarial valuation of liabilities of the Plan was completed as at December 31, 2008. This report calculated the present value of liabilities for current claims plus estimated but unreported claims to be \$60.4 million. The actuarial value of the Plan assets at December 31, 2008 was \$74.9 million, leaving an actuarial surplus of \$16.6 million and a 128% funded ratio.

We have extrapolated the above results to December 31, 2009 using the same valuation basis and assumptions as the 2008 valuation. Where available, we have reflected estimated actual experience for major financial factors including claims costs (incidence rates for new claims and recovery rates for existing claims), plan expenses and investment returns earned. While every effort has been made to be consistent and accurate, we observe that this projection is not as detailed as a full valuation of the Plan would be. The estimated liability value includes a \$0.2 million cost reflecting the provision of ad-hoc indexing of claims for inflation since the December 31, 2008 actuarial valuation to the current date. We also note that significant benefit enhancements were implemented in 2009 and the impact of these changes can only be estimated based on pricing expectations until the next full actuarial valuation is performed.

Applying the methods as described above, we have estimated the Plan liabilities at December 31, 2009 to be \$64.7 million. The estimated actuarial value of Plan assets at that date is \$92.3 million. Accordingly, the estimated financial position of the Plan at December 31, 2009 is a surplus of \$27.6 million and a 143% funded ratio.

For purposes of the projections used in the extrapolation of Plan liabilities above, the actuarial basis is the same as that used in the December 31, 2008 actuarial valuation of the fund. The critical assumptions are:

- A 5.5% rate of return net of investment related expenses used to discount liabilities
- Industry standard disability recovery tables which have been adjusted to more accurately reflect actual past experience of the Plan
- Explicit recognition of both future costs (rehab expenses) and recoveries (CPP) relating to claims existing as of the valuation date
- Increased claims costs reflecting the benefit charges implemented in 2009

Additional details can be found in the body of the formal actuarial report.

The Plan has adopted a biennial schedule for valuation; accordingly, the next formal actuarial valuation of the Plan is scheduled for December 31, 2010.

#### 9. CONTINGENCIES

As at December 31, 2009, the Plan was involved in certain litigation and claims. The outcome of such litigation and claims is inherently difficult to predict; however, in the opinion of management, any liability which may arise from such contingencies would not have a significant adverse effect on the financial statements.

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	2009	2008
<b>DISABILITY CLAIMS</b>		
Disability benefits paid	\$12,077,860	\$11,800,368
CPP recoveries	(552,324)	(418,672)
Subrogation recoveries	(116,009)	(135,945)
WCB recoveries	(55,928)	(174,220)
	<b>\$11,353,599</b>	<b>\$11,071,531</b>
<b>PROGRAM ADMINISTRATION</b>		
Plan administration services	\$691,081	\$679,395
Rehabilitation program	292,492	258,154
Short-term illness program	203,749	204,800
Medical appeal hearings	15,100	6,338
	<b>\$1,202,422</b>	<b>\$1,148,687</b>
<b>OTHER</b>		
General office and administration	\$569,452	\$506,286
Legal	111,633	75,019
Projects	52,870	87,091
Trustees	36,808	39,842
Audit and accounting	15,056	15,104
Actuarial	10,272	12,500
Consultants	9,000	25,366
Amortization	8,584	9,580
	<b>\$813,675</b>	<b>\$770,788</b>
<b>INVESTMENT EXPENSES</b>		
Investment manager	\$178,258	\$155,948
Investment custodian	33,999	29,533
Performance measurement	6,563	3,938
	<b>\$218,820</b>	<b>\$189,419</b>