ANNUAL REPORT

2019

Nova Scotia Public Service
Long Term Disability Plan Trust Fund

nsps-ltd.com

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CEO & CHAIR MESSAGE

Mission

Our shared mission is to administer the Nova Scotia Public Service Long Term Disability Plan Trust Fund to ensure sustainable and affordable funding for negotiated long-term disability benefits and return to work support.

Hello and welcome to 2020 and all that it seems to be bringing!

Claims have been increasing over the last couple of years, partly due to having more people in the Plan and partly due to increased incidence. We are pleased, however, to be able to report the Plan continues to be in a strong financial position, even with the increased claims and COVID-19 rumblings in the investment markets. Although we have seen an increase in claims, we are confident in the management provided by our Claims Administrator and continue to look for opportunities to improve services.

2019 saw the development of a Strategic Plan, the realignment of committees and revisions to Committee Terms of References and policies.

We begin a new decade with a refreshed Mission and Value Statements and a defined vision and focus for the future. In order to achieve our vision, five strategic priorities have been identified:

1. Education/outreach/communication
2. Solidifying our foundations for growth
3. Claims management
4. Member/claimant support
5. Financial sustainability

CEO & CHAIR MESSAGE

Values

- We commit to provide a competitive and sustainable LTD Plan. We will provide this in a fair and compassionate manner, considering the diversity of needs.
- We commit to provide full accountability, transparency, and the responsible use of Trust Fund resources.
- We commit to provide targeted communication practices to keep Plan members, employers, and Plan Sponsors informed of matters relating to the LTD Plan.

The work has begun in 2020 and we will provide an update on our progress in next year's annual report.

With our new Funding Policy being adopted in 2018, in 2019 the Board and Plan Sponsors approved indexing to entitled claimants for the four years 2019 to 2022. This is positive for claimants and will also assist in bringing the Plan's current surplus of 162% down to the funded ratio target of 125% within 10 years, as defined in the Funding Policy.

We continued the Trust Deed review process and expect to complete in the 2020 calendar year. The complexities of reviewing a document first drafted in 1985 have been more time consuming than we originally anticipated.

CEO & CHAIR MESSAGE

Highlights

The accomplishments of 2019 and planning for the future would not be possible without the dedication and knowledge of the Plan's Trustees. Unfortunately, in 2019, we had to say goodbye twice. On behalf of the Trustees, we would like to thank NSHA Employer Trustee Geoff Piers and CUPE Union Trustee Mike MacIsaac for their commitment to the Board and the Plan. We would also like to welcome new Trustees Steve Joy from CUPE and Anita Nickerson of the NSHA.

In closing, we would be remiss if we did not mention the impact of the COVID-19 pandemic. As of the end of Q1-2020, the fair value of the Trust Fund's investments had declined, although much of this was regained by the end of April. It is not known how the COVID-19 pandemic may ultimately affect the Plan's benefit liabilities; but as of the end of the first quarter, we do not foresee a significant impact to future operations or the Plan's ability to continue to make LTD benefit payments.

We remain confident, that working closely with our Plan Sponsors, our participating Employers, and our Claims Administrator, we will meet the challenges of 2020 and the agenda we have defined.

Respectfully,

Doug Stewart
(Chair)

Anna MacIsaac
(Chief Executive Officer)

ABOUT US

1 Established in 1985

The legal basis for the Plan is an Agreement and Declaration of Trust between the Province of Nova Scotia and the NSGEU. The Agreement provides for the appointment of eleven trustees. Five members are appointed by the NSGEU (the Union), one of whom is designated by the Canadian Union of Public Employees (CUPE). Five members are appointed by the Province of Nova Scotia (the Employer) through the Lieutenant Governor in Council, one of whom is designated by the Nova Scotia Health Authority. The Union and the Employer jointly appoint an independent chair.

2 Plan Members

The Plan provides LTD benefits to Nova Scotia Public Sector Employees who become disabled from work due to illness or injury.
At the end of 2019, the Plan covered approximately 13,756 employees.

3 Participating Employers

- Province of Nova Scotia
- Nova Scotia Community College
- Nova Scotia Health Authority
- Atlantic Provinces Special Education Authority
- Develop Nova Scotia
- Events East Group
- Innovacorp
- IWK Health Centre
- Nova Scotia Business Inc.
- Nova Scotia Gaming Corp.
- Nova Scotia Government and General Employees Union
- Nova Scotia Lands Inc.
- Nova Scotia Legal Aid Commission
- Nova Scotia Municipal Finance Corp.
- Nova Scotia Pension Services Corp.
- NSPS LTD Plan Trust Fund
- Nova Scotia Utility & Review Board
- Property Valuation Services Corp.
- Tourism Nova Scotia
- Université Sainte-Anne

ABOUT US

4 2019 Board of Trustees

CHAIR:
Doug Stewart

EMPLOYER TRUSTEES:
Anita Nickerson (NSHA)
Cathy Rankin
Robert Bourgeois
Sarah Bradfield
Shannon York

UNION TRUSTEES:
Corinne Carey
Darren McPhee
Jim Gosse
Paul Hagen
Steve Joy (CUPE)

5 2019 Committees

AUDIT & INVESTMENT:
Robert Bourgeois (Chair)
Doug Stewart
Chris Rockwell (External)
Darren McPhee
Shannon York
Steve Joy

GOVERNANCE, COMMUNICATIONS & MEMBER ENGAGEMENT:
Paul Hagen (Chair)
Doug Stewart
Cathy Rankin
Corinne Carey
Sarah Bradfield

HUMAN RESOURCES:
Doug Stewart
Corinne Carey
Sarah Bradfield

FUNDING POSITION

A Continued Strong Financial Position

1 Funding Margin

The Plan's financial position remained stable with a $63.5 million funding margin as of December 31, 2019

2 Funded Ratio

With net assets valued at $166.3 million and projected liabilities of $102.8 million, the Plan's funded ratio decreased slightly to 162%

3 Ad Hoc Indexing

Addressing the funded ratio, indexing has been approved for four years

The Plan's benefit liabilities are calculated using an actuarial valuation that provides an estimate of the funds necessary to meet the Plan's commitment to its beneficiaries. Actuarial valuations are completed every second year, extrapolations are completed for the years in between. The most recent actuarial valuation was completed as of December 31, 2018 by Morneau Shepell, the firm appointed by the Board of Trustees to provide the Plan's actuarial services.

The 2018 valuation estimated the benefit liabilities for the Plan to be $95.2 million. The market value of the Plan's net assets as of December 31, 2018 was $157.1 million, resulting in a funding margin of $62.0 million at that time.

The Plan's financial position has been extrapolated to December 31, 2019 by projecting the Plan's benefit liabilities using an estimated cost of new claims and actual benefit payments, and by updating asset values to reflect actual investment returns earned to the end of 2019.

FUNDING POSITION

The extrapolation also reflects the decision to provide indexing to qualifying claims in pay at the end of calendar years 2019 through 2022. The Plan's projected benefit liabilities as of December 31, 2019 were $102.8 million. The value of the Plan's net assets available for benefits as of December 31, 2019 were $166.3 million. As a result, the Plan's financial position has remained relatively stable, increasing from a $62.0 million funding margin at the end of 2018 to a projected $63.5 million funding margin and a funded ratio of 162% as of December 31, 2019.

YEAR END	2015*	2016	2017*	2018	2019*
Assets (minus accounts payable) $ millions	149.1	154.0	160.0	157.1	**166.3**
Accrued Liabilities for Benefits $ millions	80.0	83.0	86.7	95.2	**102.8**
Funding Margin $ millions	69.1	71.0	73.3	62.0	**63.5**
FUNDED RATIO	**186%**	**186%**	**185%**	**165%**	**162%**

**Based on extrapolated liability results*

Source: Morneau Shepell

The Plan's new Funding Policy adopted in 2018 provides guidance on actions (premium adjustments and/or benefit changes, including indexing) to consider when the Plan's funded ratio is outside of its target range of above 115% but at or below 135%. The objective of the policy is to maintain a funded position that provides for the security of benefits promised to claimants while maintaining stable and affordable premium rates. Noting the 2018, 165% funded ratio, the Board, in 2019, recommended and Plan Sponsors approved indexing for four years (2019 to 2022), which will return the Plan to its target funded ratio within 10 years.

FUNDING POSITION

In summary, the Plan is currently financially sound and well able to meet commitments made to existing claimants. At the same time, current premium levels continue to remain below the best estimate range for the cost of new disability claims including associated expenses, but given the Plan's funding margin, this is not a cause for immediate concern.

Actuarial valuation results and projections are estimates based on assumptions, with the outbreak of COVID-19 as of March 2020, we are unable to quantify how the pandemic may ultimately affect the Plan's experience and benefit liabilities.

The Board will continue to monitor and respond to emerging Plan risks going forward and consider premium rates and benefit structure as per the Funding Policy.

The actuarial valuation is performed every two years; accordingly, the next formal actuarial valuation of the Plan is scheduled for December 31, 2020.

LTD CLAIMS ADMINISTRATION

1 Claims Received Annually

There was a 10% increase in claims received in 2019, which also resulted in an increase in claims approved. We are continuing to see an increase in claims year over year. Our covered population is aging, the average age of employees submitting a claim in 2019 was 50, this is likely a contributing factor to the increase in claims.

YEAR END	2017	2018	2019
Claims received	165	210	231
Number of lives	12,700	13,600	13,600
Occurrence rate / 1,000 lives	12.9	15.4	16.9

Source: Manulife

2 Active Claims by Status

Claims are categorized to ensure appropriate management. The chart on the next page reflects 52% of claimants will unlikely go back to work - they are deemed permanent. Case management focuses on those claimants who are still recovering, with the goal being a return to the workforce.

LTD CLAIMS ADMINISTRATION

Rehabilitation Specialists at Manulife work closely with claimants, their employers and care providers to assist with return to work. In 2019, rehab referrals increased significantly. Manulife's Mental Health Specialists (MHS) also provide critical support and guidance to Case Managers on mental health claims. In 2019, there were 214 referrals requesting the expertise of the Mental Health Specialist.

CLAIM TYPE	2017	2018	2019
	Claims	Claims	Claims
Intervention	168	210	252
Rehab	47	35	48
Permanent	341	335	328
TOTAL	**556**	**580**	**628**
MHS Referrals in period	135	204	214
Rehab Referrals in period	165	156	289

Source: Manulife

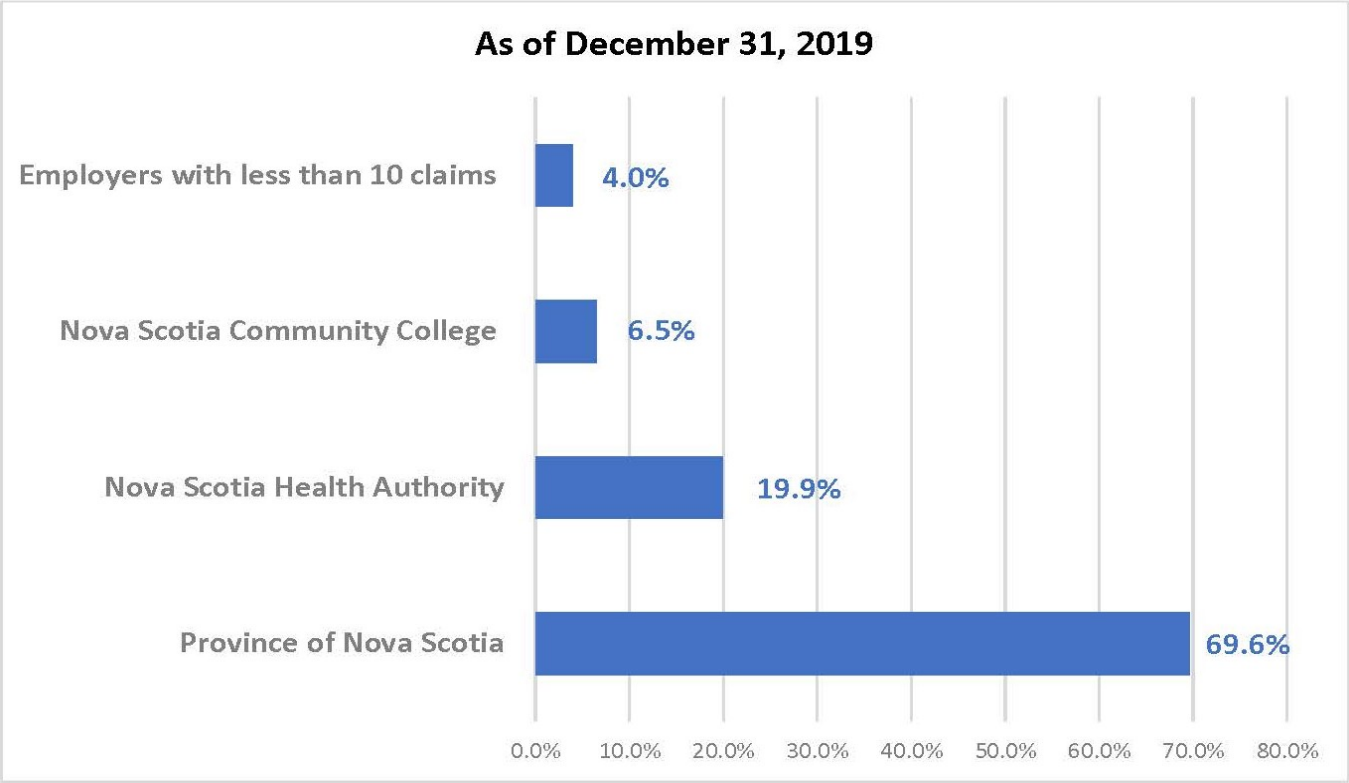
INTERVENTION:
Medical management is ongoing and final prognosis is unknown. The Case Manager is actively monitoring status to determine when it will be medically safe to move forward with return to work planning.

REHAB:
The focus is on addressing physical and/or cognitive barriers that are impacting ability to return to work.

PERMANENT:
Medical limitations and restrictions preclude a return to any occupation even with the assistance of rehabilitation. Often CPP disability benefits have been awarded.

3 Claims Distribution by Employer

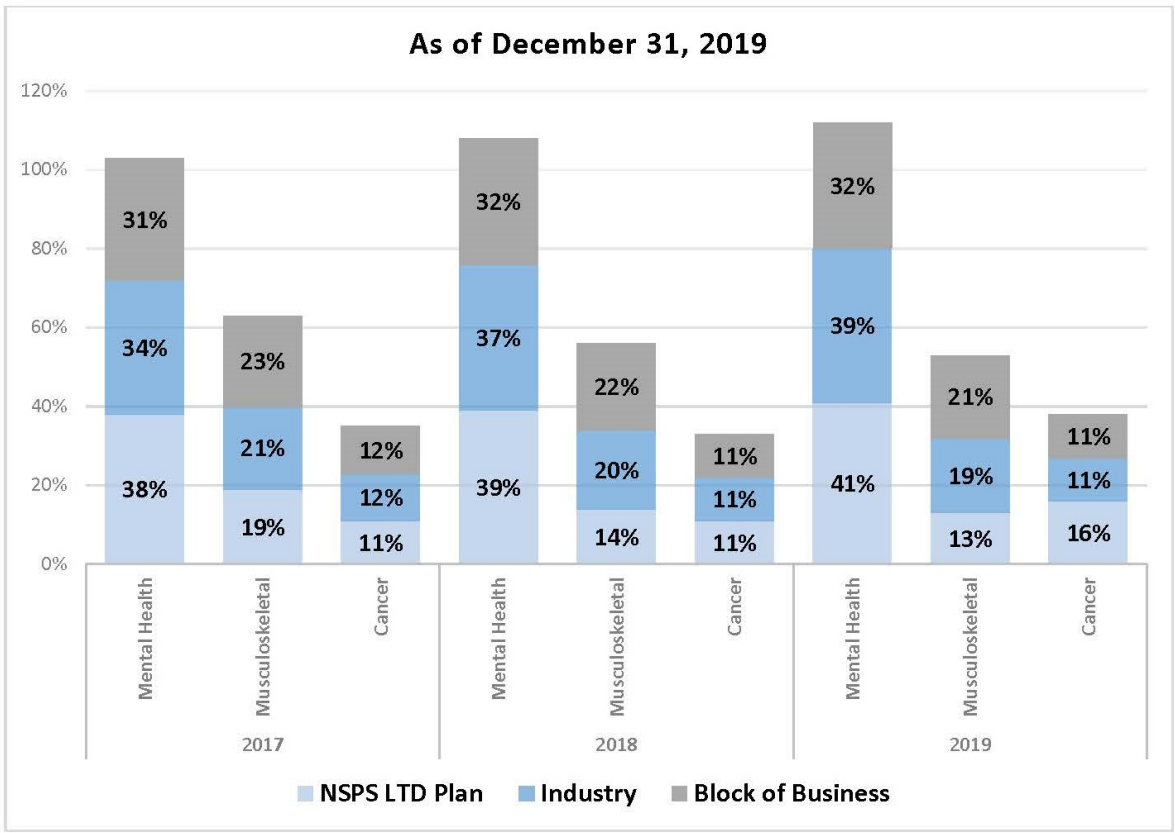
The distribution of claims by employer has not changed significantly over the years. As the Province is our largest employer, it is not surprising that they contribute to the majority of claims.



Source: Manulife

4 Claims Received by Diagnosis Annually

The number of mental health claims received continues to increase year after year, which is in keeping with Manulife's like government industry, and overall block of business. More awareness and social acceptance is thought to be a contributing factor in the number of mental health claims submitted.



Source: Manulife

INDUSTRY:
All claims for like government industry insured by Manulife.

BLOCK OF BUSINESS:
All claims insured by Manulife.

5 Claims Resolutions Annually

Consistent with last year, 43% of all claim resolutions were the result of employees returning to work. This is positive; however, also a percentage we strive to increase.

REASON	2017		2018		2019	
	Claims	% of Total	Claims	% of Total	Claims	% of Total
RTW	57	38.8%	63	42.3%	64	43.2%
Medical Evidence	14	9.5%	7	4.7%	18	12.2%
COD	7	4.8%	13	8.7%	10	6.8%
Max Period	24	16.3%	31	20.8%	37	25.0%
Retirement	27	18.4%	15	10.1%	7	4.7%
Deceased	14	9.5%	15	10.1%	7	4.7%
Other	4	2.7%	5	3.4%	5	3.4%
TOTAL	**147**		**149**		**148**	

Source: Manulife

COD:
Change of definition - disabled from own occupation; however, not any occupation.

LTD CLAIMS ADMINISTRATION

6 2019 Summary

Throughout the year, Manulife tracks key claims metrics. The Plan office and Manulife identify claim trends in an effort to understand where we should focus our attention.

KEY METRIC	2019 CLAIM SUMMARY	RISK
Received Claims	Manulife received 231 LTD claims in 2019, tracking higher than 2018 by 10% or 21 more claims and higher than 2017 by 40% or 66 more claims.	
Incidence rate	Received claim incidence is tracking higher in 2019 with an incidence rate of 16.9 per 1,000 lives insured compared to 15.4 per 1,000 lives in 2018.	
TAT* - Claim Submission	70% of claims were received before the LTD start date in 2019, on average 26 business days prior. Target is to have all forms received prior to the LTD start date.	
TAT* - Initial Decisions	100% of claim decisions were processed by the 10th business day, exceeding the target of 90%. Average processing time to provide the LTD decision in 2019 was 9.8 days.	
Volume by Diagnosis	Mental Illness was the leading cause of disability for the NSPS LTD Plan, making up 41% of claims received in 2019. The number of Cancer related claims has also increased in 2019.	
Mental Health	Year over year we are seeing a higher incidence of Mental Illness claims. This increase was equally observed with Manulife's Like Government Industry and overall LTD Block of Business.	
Average Duration	Overall durations from benefit start date to closure (excluding permanent claims) was 14 months. RTW** durations have been stable at 9 months in 2018 and 2019.	
Claim Interventions	Rehab Specialist utilization was higher in 2019 compared to the previous year. Rehab supports members with treatment facilitation, coordinating accommodation discussions and return to work planning.	
Resolutions & Outcomes	Overall resolutions have been stable with 148 closures reported in 2019. Return to work closures are the number one reason for claim closure, followed by claims closing at Max Period, Medical Evidence and Change of Definition.	

Source: Manulife

TAT* Turn Around Time
RTW** Return to Work

The green boxes in the chart above indicate there is currently no risk, while the yellow indicates a metric that should be monitored closely.

INVESTMENT MANAGER PORTFOLIO SUMMARY

Beutel Goodman & Company Ltd. (BG) achieved positive performance results for the Plan; however, with relative underperformance for both strategies versus their respective blended benchmarks for the year ending December 31, 2019, net of fees.

Liability Hedging Portfolio

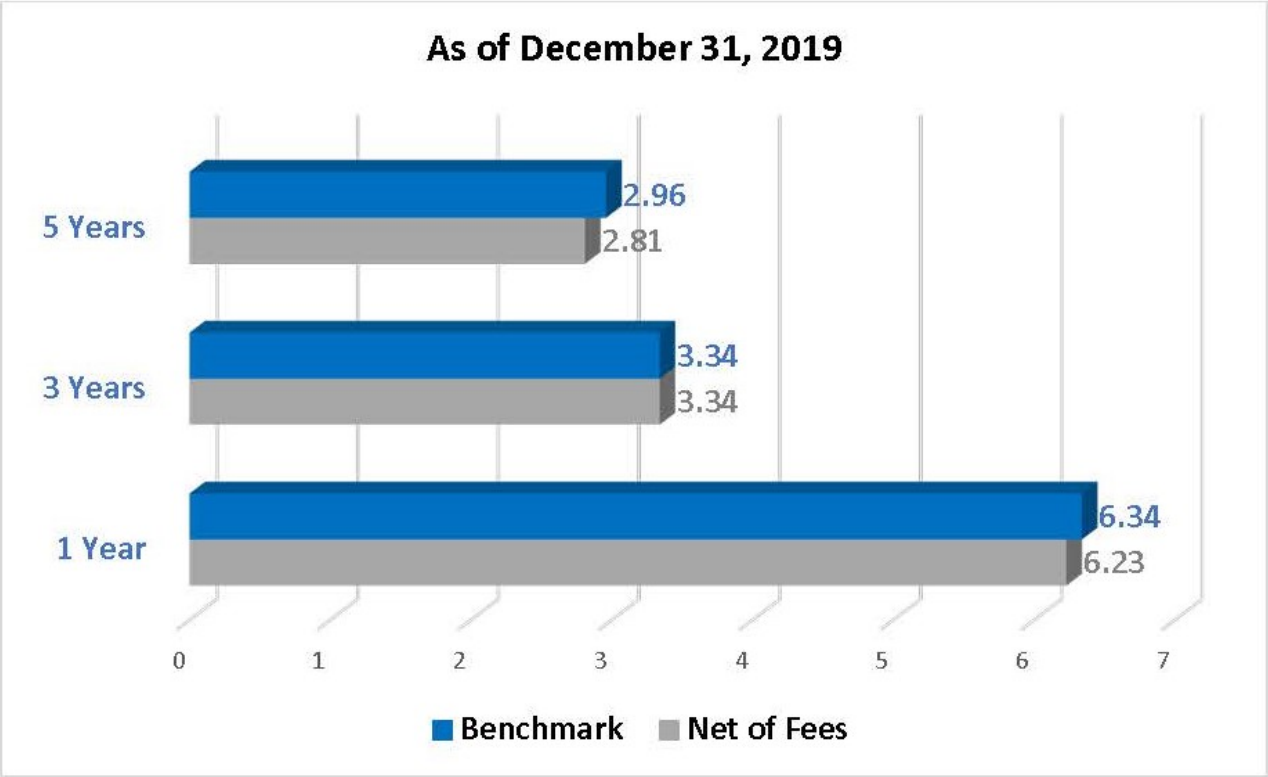
A looming recession and volatility stemming from significant geopolitical uncertainty were two of the underlying themes in the January 1 to December 31, 2019 period. The laundry list of distractions included – but was not limited to – further escalation of trade tensions, growing fears of a hard Brexit, unrest in Hong Kong, concern about a potential recession in Europe, an attack on Saudi Arabian oil fields.

Also, a whistle blower complaint that sparked an impeachment inquiry in the U.S.. Against this backdrop, the U.S. Federal Reserve (Fed) paused the rate-hiking cycle and in the second half of 2019, administered three consecutive "insurance" cuts to the federal funds rate in an effort to extend economic growth.

The Bank of Canada (BoC), meanwhile, held the overnight rate steady throughout the period, at 1.75%, amid a pickup in the economy in the second quarter and continued overall strength in jobs, a low unemployment rate, and inflation that generally held around the bank's target 2% level.

The Plan's liability hedging portfolio under-performed its blended benchmark on a net of fees basis. In the Beutel Goodman Income Fund, sector allocation was a contributor, as the Fund was underweight federal bonds and overweight corporate bonds.

Liability Hedging Portfolio

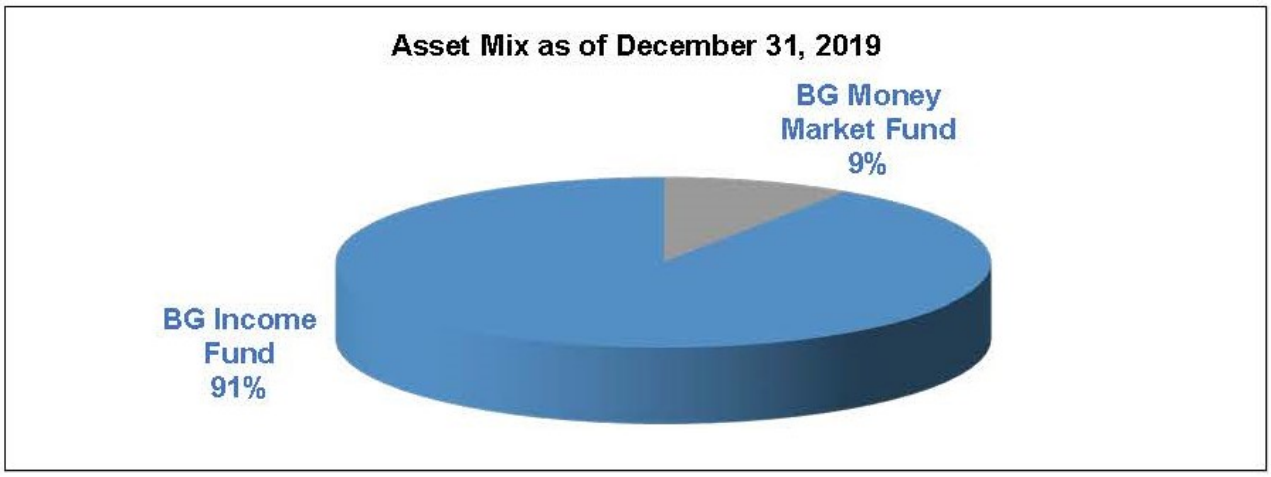


Source: Beutel Goodman

Government security selection also added value, largely due to overweight positions in the provinces of Ontario and Quebec. Corporate security selection, however, detracted as higher-quality credits under-performed higher-beta credits amid continued strength in credit market sentiment.

Duration also detracted from performance in the period as the Fund was generally short duration in a falling bond yield environment, as did the Fund's overweight position in the mid part of the curve, as the yield curve flattened in the period.

Liability Hedging Portfoiio



Source: Beutel Goodman

After a sharp correction late last year, global markets rebounded in the January 1 to December 31, 2019 period. Equities saw one of the best months in 30 years in January, and momentum continued through April amid rising oil prices, signs the U.S. economy and job market were continuing to expand solidly, and a perceived dovish U-turn in monetary policy by the U.S. Federal Reserve (the Fed). However, the mood turned somewhat risk-off by May, amid some weakness in economic data and growing concern that a quick resolution to the U.S.-China trade war was unlikely. By the third quarter, volatility had become a main theme.

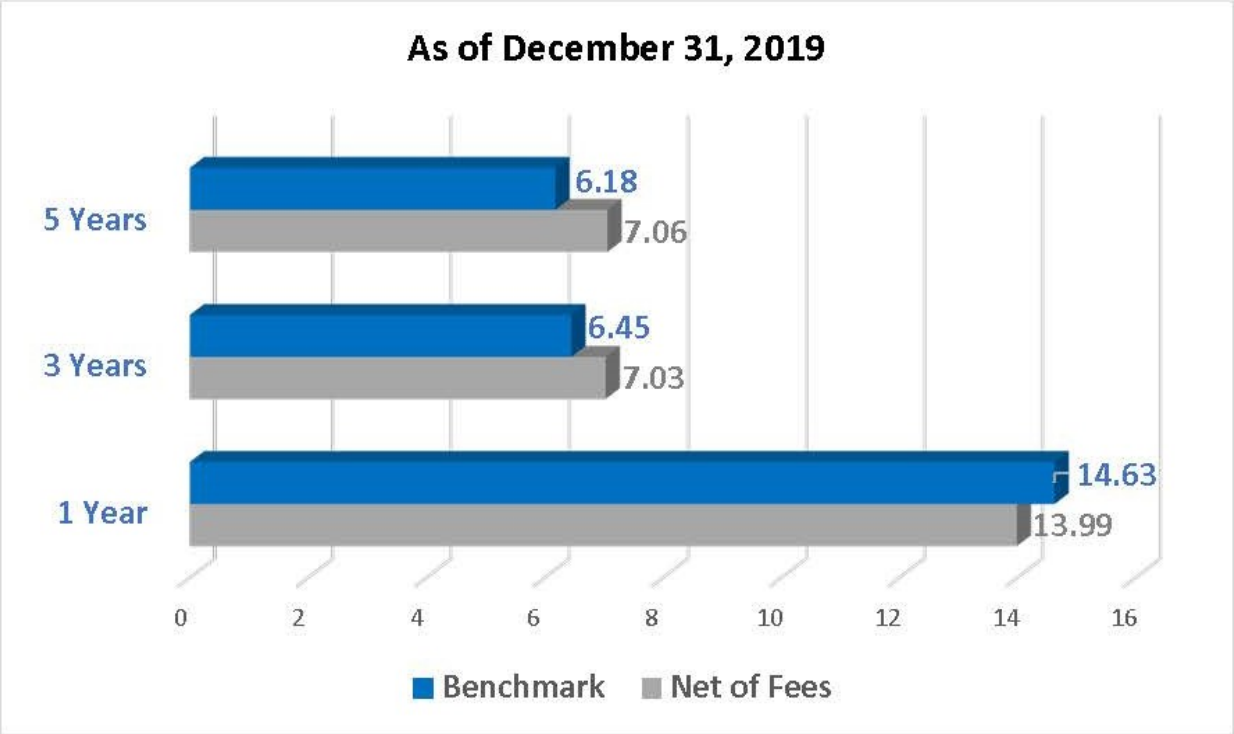
Balanced Portfolio

However, by the fourth quarter, the U.S. and China had shaken hands on a Phase I trade deal, the Fed had cut rates a third time and Britons handed Boris Johnson a Conservative majority and a green light to get Brexit done, calming much of the uncertainty in equity markets.

Against this backdrop, the Plan's Trust Fund under-performed its benchmark on a net of fees basis. The primary source of relative under-performance in the Beutel Goodman Balanced Fund was stock selection in the Canadian equities sleeve.

This was largely offset by allocation effects; namely relative underweight allocations to fixed income and cash, and an overweight allocation to U.S. equities. Stock selection in the international equities sleeve also contributed.

Balanced Fund Portfolio

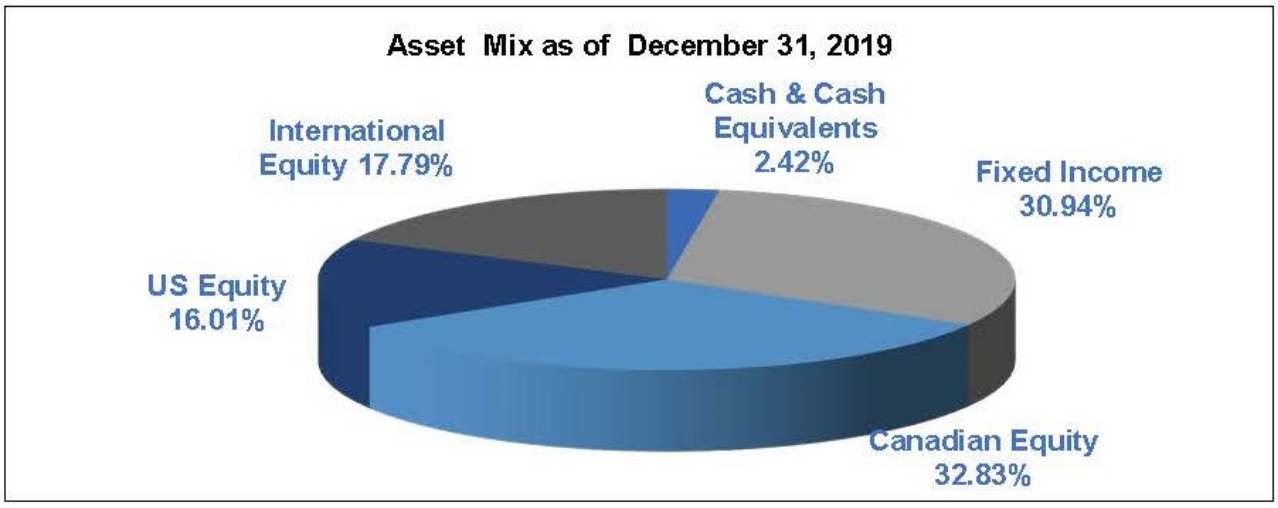


Source: Beutel Goodman

During the period, the portfolio's asset mix was adjusted. While we maintain high conviction in equities, we increased the portfolio's allocation to bonds and decreased allocation to equities. Within the equities sleeve, allocation to each of Canadian, U.S., and international equities was reduced by 50 to 100 basis points.

INVESTMENT MANAGER PORTFOLIO SUMMARY

Balanced Fund Portfolio



Source: Beutel Goodman

BNY Mellon Asset Servicing provides performance measurement services; and CIBC Mellon Global Security Services provides custodial and accounting service.

LET'S GET IN TOUCH

You can reach us at:

902.461.0421 or

1.877.461.0421 (Toll-free)

Thank You!

Nova Scotia Public Service
Long Term Disability Plan Trust Fund