

## Year in Review: 2012

This bulletin summarizes key 2012 activities of the NSHEPP Trustees and staff. We invite you to visit [www.nshepp.ca](http://www.nshepp.ca) if you are interested in more information. After June 2013 you can find our 2012 Audited Financial Statements by clicking on the web-site's "Publications" tab.

### Benefits

On January 1, 2013, pensions in payment to retirees increased by 1.2% to provide for inflation (prorated for retirees that had been retired for less than a year).

A base year improvement to 2010 would typically have occurred at the beginning of 2012. Unfortunately it was necessary to defer this improvement to February 11, 2013. The deferral resulted primarily from Nova Scotia's minimum pension funding laws (so called "solvency" rules). These rules provide a valuable level of benefit security to our members, normally requiring any solvency deficiency to be paid off within 5 years. At the end of 2012 we were estimated to be 94.5% funded on a solvency basis. This situation made it impossible to improve our base year in 2012 without a higher than usual risk of future contributions increasing.

### Funding

At the end of 2012 our assets had increased to about \$4.365 billion, or about 108% of our going-concern liabilities. *This is a much stronger financial position than is the case for many Canadian pension plans.* Note: This is a preliminary estimate and is subject to revision. These liabilities are based on our actuary's "best estimate" assumptions. Final results and assumption details will be reported in our Audited Financial Statements which will be posted on our web-site after June 2013.

On April 1, 2012, contributions were increased. Member contributions increased by 0.7534% plus an additional 0.1711% on any annualized earnings in excess of \$50,100. Employer contributions increased to be 1.4% more than members' increased contributions.

With a relatively strong financial position, you might ask why our contributions needed to increase. The answer is that expected future investment returns have decreased. Your pension benefits are paid for from a combination of contributions and investment returns. Interest rates and expected future returns from most investments have decreased significantly over the last decade. This increases the proportion of your benefits that needs to be paid for from contributions rather than investment returns.

While nobody likes pension contribution increases, our situation is much better than what is being faced by most Canadians. People who rely only on RRSP's to prepare for retirement are in many cases still feeling the impact of the stock market crash of 2008. Their plans for retirement have in many cases been postponed for years.

(continued from other side)

## **Investments**

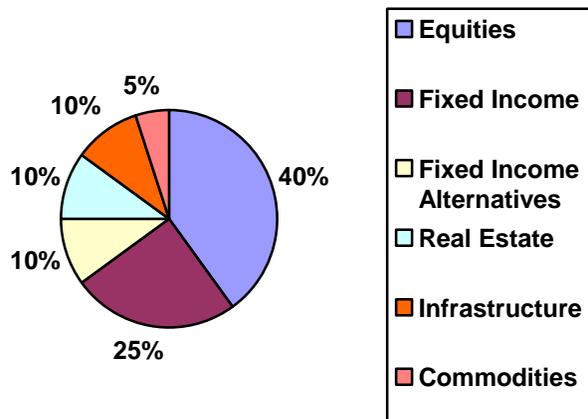
At about 10.2%, our 2012 investment return was higher than what was earned by most other Canadian pension plans. Much of our out-performance in recent years was caused by "hedges" that we maintain. These hedges are used to better manage Plan risk. They help to protect us from unexpected changes in our liabilities. While this strategy has paid off for us, in years when our liabilities decrease unexpectedly, our investment returns will tend to be less than other pension plans. The following 2012 returns are preliminary and may change slightly.

Year	Annual Returns (net of expenses)	Market Benchmark *	Value Added
2008	-13.36%	-17.53%	4.17%
2009	26.84%	25.32%	1.52%
2010	18.35%	16.95%	1.40%
2011	8.18%	8.41%	-0.23%
2012	10.23%	10.46%	-0.23%
<b>2008-2012</b>	<b>9.17%</b>	<b>7.67%</b>	<b>1.50%</b>

\* The market benchmark rate of return is one of the standards used to evaluate investment performance. It is the rate of return net of fees, expected if the assets were invested passively in the proportions dictated by the Asset Mix Policy.

Our fund's target asset mix is shown in the chart at the right. On top of this, we overlay additional investments in bonds and hedge funds. In combination, these overlays are expected to increase long term returns and reduce Plan risk.

A more complete description of the Plan's investment policies can be found at [www.nshepp.ca](http://www.nshepp.ca) by clicking on the "Publications" tab.



## **Administration**

Key administrative accomplishments in 2012 included:

- Preparation of 26,287 annual statements. 100% were prepared within our time standards;
- Processing of 683 retirements, 1,201 terminations, 28 active deaths and 89 past service purchases. 100% of these were within our time standards; and
- Total membership increased from 34,828 to 35,833, and participating employers increased from 84 to 88.

Our per member administration costs continue to be low; about 38% less than median based on a sample of 17 other large pension plans.

## **Governance**

Highlights of your Board of Trustees' activities in 2012 are:

- Ongoing monitoring of the adequacy of contributions, including the commissioning of an April 1, 2012 actuarial report;
- Consideration of various new investments; and
- Monitoring of compliance with all staff and Trustee policies.

Finally, a joint union-management committee concluded a review of our governance structure. As a result, responsibility is now shared equally between four nominees from the major unions (CAW, CUPE, NSGEU and NSNU) and four nominees from the employers' association (Health Association Nova Scotia).