

# NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION PLAN

## Annual Report March 31, 2007



### NOVA SCOTIA PENSION AGENCY

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*Strength today.  
Growth for Tomorrow.*

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**Finance**  
**Office of the Minister**

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September 20, 2007

**To: The Members and Beneficiaries of the Nova Scotia Public Service Superannuation Plan**

As Trustee of the Public Service Superannuation Fund, I am pleased to present for your information the annual report of the Fund for the year ended March 31, 2007. The pension plan currently includes 15,624 active members and 11,023 pensioners, and holds assets of \$3.8 billion.

The Fund's return on investments has exceeded its actuarial requirement of 7.38% with a return of 10.51% as of the year ended March 31, 2007. These results are very positive and support our goal of enhancing the health of this important pension plan.

The Nova Scotia Pension Agency continues to work diligently to meet your retirement needs & help you to accomplish your financial goals. I look forward to another successful year and welcome your feedback on this report.

Sincerely,

A handwritten signature in black ink that reads "Michael G. Baker".

Michael G. Baker, Q.C.  
Minister of Finance & Trustee of  
the Nova Scotia Public Service Superannuation Plan

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## NOVA SCOTIA PENSION AGENCY

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The Nova Scotia Pension Agency was created on February 9, 2006 as a Special Operating Agency of the Government of Nova Scotia. It absorbed the Pensions and Investments Branch of the Nova Scotia Department of Finance to provide pension administration and investment management services to the following Nova Scotia public sector pension plans:

- ❖ Public Service Superannuation Plan
- ❖ Teachers' Pension Plan
- ❖ Members of the Legislative Assembly Pension Plan
- ❖ Sydney Steel Corporation Superannuation Fund

Staff formerly employed by the Department of Finance's Pensions and Investments Branch are now employed by the Nova Scotia Pension Agency. They continue as civil servants in accordance with the Civil Service Act and Regulations and their collective agreements.

With assets under management of \$8.6 billion the Nova Scotia Pension Agency provides investment management and administrative services to the Public Service Superannuation Plan, Teachers' Pension Plan, the Members of the Legislative Assembly Pension Plan and the Sydney Steel Corporation Superannuation Fund.

The Pension Plans under administration are defined benefit plans. Membership of the various plans includes employees of the Province of Nova Scotia, public school teachers, universities, community college, health care workers, and Sydney Steel Corporation pensioners who are former Steelworkers, CUPE members and salaried workers.

The goal of the Nova Scotia Pension Agency is to demonstrate to plan members and pensioners that we will serve them to the best of our abilities. This is reflected in the following key objectives:

- ❖ Generating a long-term rate of return on investments to support the Pension Plan;
- ❖ Continuing to improve our service and communications to our members and pensioners;
- ❖ Maintaining a staff complement consisting of the best in the fields of investment management, pension administration, accountancy, and other experts that come from both the public and private sectors.

### Nova Scotia Pension Agency Contacts

**John Traves, Q.C.**  
Chief Executive Officer  
Phone 902-424-3746

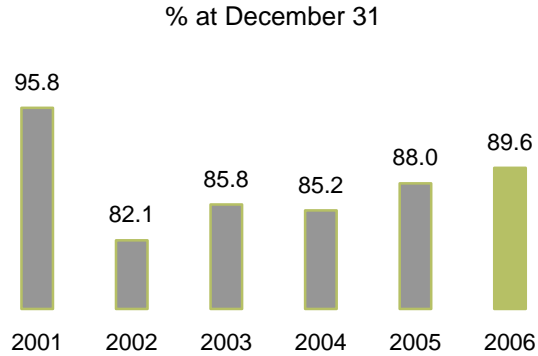
**Kim Blinn**  
Director of Pensions  
Phone 902-424-8415

**Elizabeth Vandenberg, MA (Econ), CFA**  
Director of Investments  
Phone 902-424-2715

**Funded Ratio**

The funded ratio is equal to assets divided by liabilities, expressed as a percentage. A funded ratio of 100% or more means that the Plan is fully funded, i.e. the Fund's assets are sufficient to cover liabilities, based on current market values and actuarial assumptions. The surplus is equal to the Plan's assets less its liabilities. If liabilities are greater than assets, the Plan has an unfunded liability.

The Fund's assets are based on current market value. The Plan's liabilities are equal to the present value of what the Fund is expected to pay out in future benefits for service accrued to date, based on actuarial assumptions.



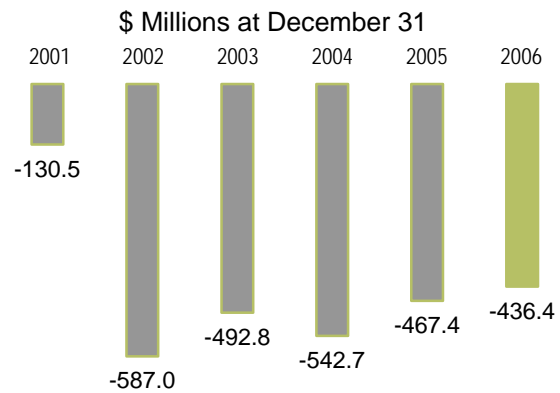
**Unfunded Liability**

The position of the Plan has improved steadily over the last four years. As at December 2002, there was an unfunded liability of \$587 million. By December 31, 2006, the unfunded liability had decreased to \$436.4 million.

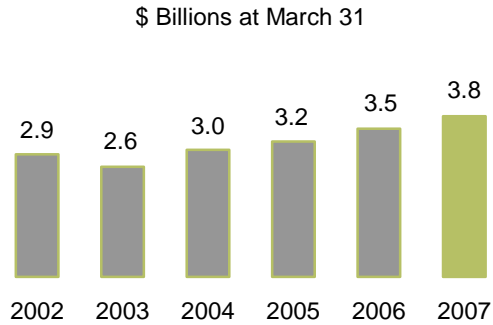
The main reason for this improvement was positive investment performance. The gain on investments from December 31, 2002 to December 31, 2006, relative to actuarial assumptions, was \$556 million.

This gain was balanced out, however, by losses due to other factors including interest on the unfunded liability, accumulated contribution deficits, experience losses on mortality and retirements, and changes in actuarial assumptions.

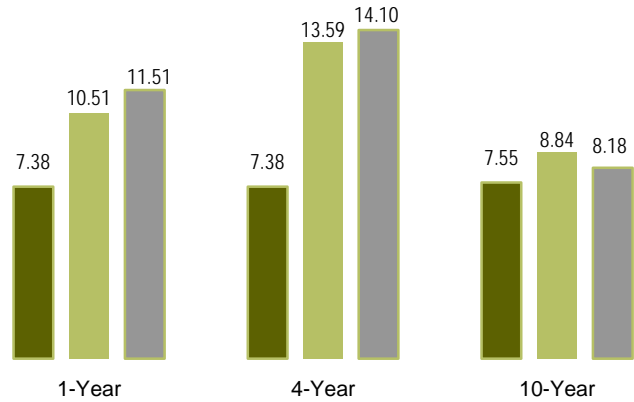
The Public Service Superannuation Plan retains the services of an actuarial consulting firm to act as its actuary. The firm of Mercer Human Resource Consulting currently fills this role. Actuarial valuations are performed annually.



Net Assets Available for Benefits



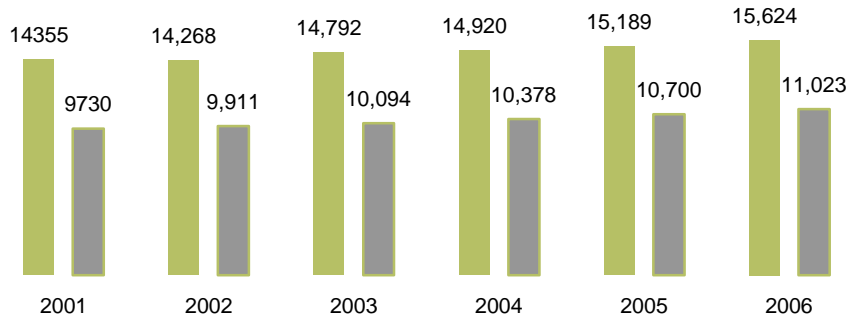
Investment Performance (%)



- Actuarial Assumed Rate of Return (%)
- Public Service Superannuation Fund (%)
- \* Benchmark (%)

\* See Page 13 for the definition of Benchmark.

Change in Contributor and Pensioner Membership



- Contributors – members who are actively working and contributing to the pension plan
- Pensioners & Survivors – members who have retired and are drawing a pension

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## MEMBER SERVICES

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### Personalized Client Services

Members and pensioners can reach a member of our team to answer any of their questions regarding their pension plan. Our hours of operation are 8AM to 4:30PM, Monday through Friday.

### Web Site – Coming Soon!

Watch for the launch of our new website. There are vast improvements to navigation, overall content and feel, and language friendliness. Our new website address will be [www.novascotiapension.ca](http://www.novascotiapension.ca).

This image shows a partial snapshot of the new home page.



### Member and Pensioner Newsletters

Pension News is our semi-annual newsletter produced in the summer and winter. Our hope is that it fulfils its purpose and provides some useful information that our clientele may not otherwise be aware of. There is a version for active members and a separate version especially for pensioners.

### Online Pension Estimate Calculator

Our online pension estimate calculator can be found on our website. This calculator enables clients to obtain an estimate of what their pension will be upon retirement. Please note the estimate provided by this calculator is for illustrative purposes only. If a member is within two years of retirement he or she should contact the Nova Scotia Pension Agency for a more exact estimate.

### Pension Seminars and Information Sessions

Between the months of September and June, the Nova Scotia Pension Agency participates in pension seminars designed to communicate retirement options, qualification for a pension, and other pension plan information. In these seminars we reach new and mid-career members as well as those nearing retirement. After such presentations our staff are available to take questions and discuss individual pension matters.

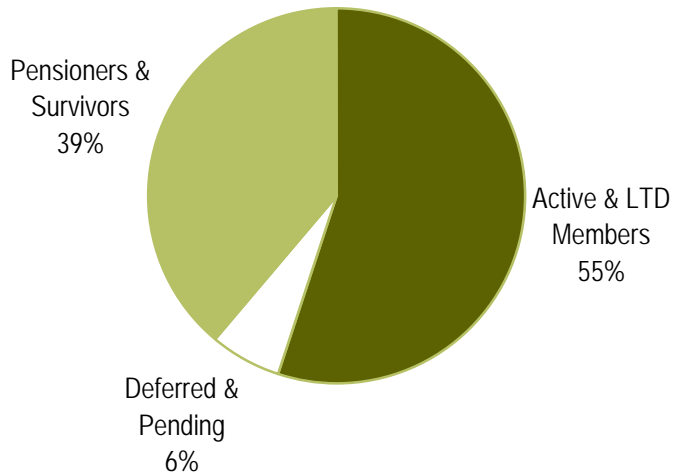
**MEMBER SERVICES - CONTINUED**

**Membership Data**

Active & LTD Members = 15,624  
55% of membership

Pensioners & Survivors = 11,023  
39% of membership

Deferred & Pending = 1,730  
6% of membership



	December 31, 2005	December 31, 2006
<b>Active and LTD Members</b>		
Percentage of membership	56%	55%
Number	15,189	15,624
Average pensionable earnings for year	\$49,649	\$50,678
Average years of pensionable service	13.33 years	13.08 years
Average age	46.4	46.5
<b>Pensioners &amp; Survivors</b>		
Percentage of membership	39%	39%
Number	10,700	11,023
<i>Pensioners</i>		
Average annual lifetime pension	\$15,571	\$15,989
Average annual temporary pension	\$6,866	\$6,718
Average age	69.4	69.3
<i>Spouses &amp; Ex-spouses</i>		
Average annual lifetime pension	\$10,293	\$10,552
Average age	74.3	74.5
<i>Children</i>		
Average annual pension	\$2,524	\$2,725
Average age	20.5	20.2
<b>Deferred Pensioners &amp; Pending Terminations</b>		
Percentage of membership	5%	6%
Number	1,456	1,730
<i>Deferred Pensioner</i>		
Average annual pension	\$8,193	\$8,221
Average age	49.5	49.9
<i>Pending Terminations</i>		
Average annual lifetime pension	\$3,695	\$4,329
Average annual temporary pension	\$1,456	\$1,677
Average age	44.4	44.3

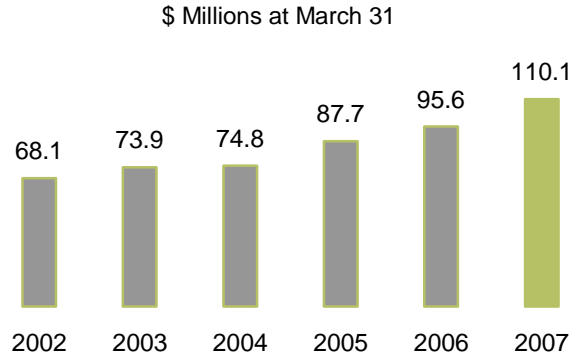
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MEMBER SERVICES - CONTINUED

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**Employer & Employee Contributions**

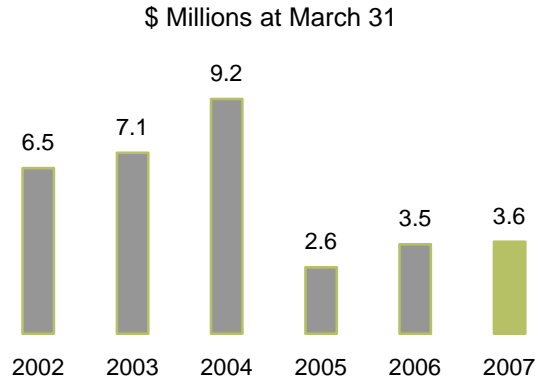
Pension benefits are partially funded by contributions made to the Plan. The Province matches member contributions. The chart reflects the contributions made by employees and employers for the periods ending December 31 of each year.



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**Purchases & Transfers**

When a member purchases prior service or has service transferred via reciprocal transfer from another defined benefit pension plan, those contributions are made to the Public Service Superannuation Fund. The chart represents purchases and transfers made by members of the pension plan for the periods ending December 31 of each year.



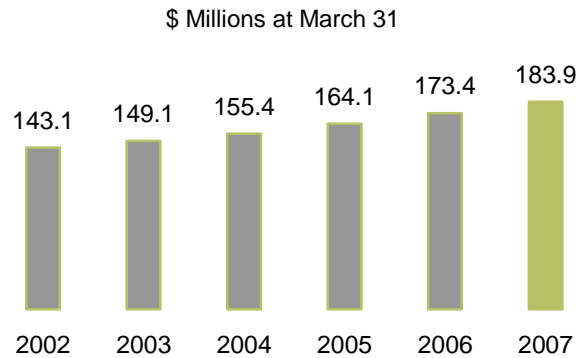
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## MEMBER SERVICES - CONTINUED

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### Pensions Paid

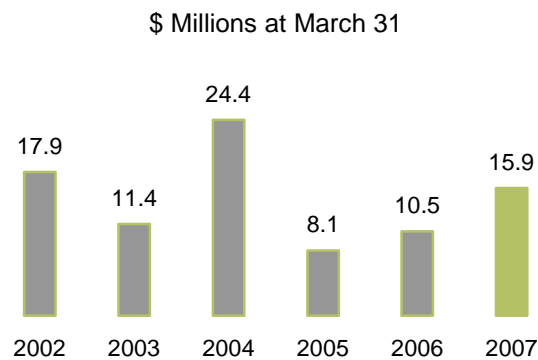
Pension payments made up to March 31, 2007 totaled \$183.9 million compared to \$173.4 million paid as at March 31, 2006. This increase is due to an increase in the total number of pensioners, as well as the cost of living adjustment.



### Refunds and Transfers Out

A member who has stopped working as a public servant has three options available to choose from:

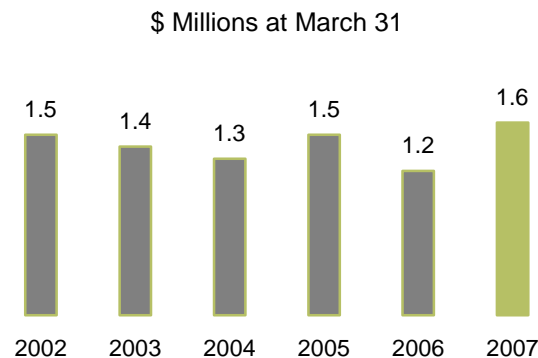
- ❖ A refund of contributions (depending on the amount of pensionable service and the time period in which the contributions were made);
- ❖ A transfer to another pension plan or retirement savings plan;
- ❖ A deferred pension payable as early as age 55.



### Plan Administration Expenses

Operating expenses include the various costs incurred to manage the investment of the plan and to carry out the day-to-day administration.

Plan administration costs include the salaries and office expenses of the personnel as well the cost of professional services such as actuarial valuations and audits.



### Economic Conditions

Fiscal year 2007 saw another solid year of growth in general for the global economy. China and India's economies continued to lead the way by achieving significant growth while growth in Europe and Japan could be termed solid. Countries in North America, however, saw their economies begin to slow down significantly as the impact of the downturn in the US housing market, consecutive interest rate increases by the US central bank over the past couple of years and softness in certain trade-dependent sectors in Canada took hold.

The combination of a strong global economy, relatively low bond yields, corporate takeovers/ buyouts, and healthy corporate balance sheets allowed global equity markets to post solid gains once again despite some volatility towards the end of the fiscal year. Despite softness in the North American economies, equity markets as represented by the TSX Composite and the S&P 500 gained 14.2% and 10.6% (in Canadian dollars), respectively. European and Asian equity markets also posted strong gains as the MSCI EAFE (Europe, Asia and the Far East) increased 19.4% in Canadian dollars.

The effect of volatile commodity prices and concerns over the US current account deficit resulted in volatile currency markets over the past year. Despite the volatility of the Canadian dollar it was supported throughout the year by budget and trade surpluses at home and the foreign takeover of Canadian companies.

Inflation was relatively low and stable throughout much of the year but with economies close to capacity and tight labour markets many central banks increased short term-interest rates. The Canadian bond market, as measured by the Scotia Capital Universe, posted a 5.6% gain in fiscal year 2007.

Going forward, inflation concerns, higher interest rates and modest corporate earning gains may constrain bond and equity markets especially relative to the experience of the past four years and may lead to more volatile markets.

### Goal of the Fund

As per the Fund's Statement of Investment Policies and Goals, the goal of the Fund is to invest assets in consideration of the long term interest of the beneficiaries and specifically to achieve, within acceptable levels of volatility and risk, a rate of return in excess of the actuarial assumed rate of return and the return of a designated policy asset mix (benchmark).

### Policy and Actual Asset Mix

The policy asset mix (benchmark) is the long-term asset mix of the fund and is chosen to meet the Fund's long-term requirements. It is re-evaluated periodically to help ensure that this is achieved. Currently the policy asset mix target weightings are:

Canadian Equity	30%	Fixed Income	31%
US Equity	15%	Real Estate	7%
International Equity	15%	Cash	2%

Holdings of Canadian Equity, US Equity, International Equity and Fixed Income have a range around each of these targets of +/- 5%. Real Estate has a range of +/- 3%.

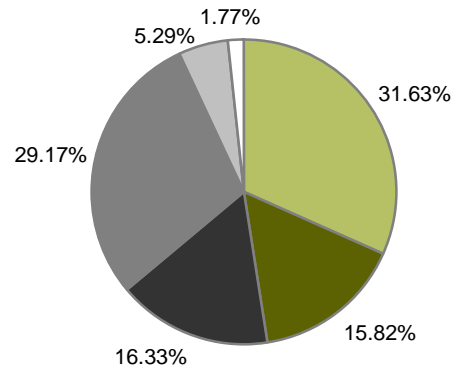
At fiscal year end, equities totaled 63.7% of the total portfolio. Canadian equities accounted for 31.6%, US equities accounted for 15.8% and International Equities accounted for 16.3% of total assets. Fixed Income as represented

**INVESTMENT REPORT - CONTINUED**

by Canadian real return bonds, US high yield bonds and Canadian domestic bonds were 29.2% of the total portfolio. Real Estate as represented by Canadian office, industrial, retail and multi-family residential holdings were 5.3% of total assets. Cash was 1.8% of total assets.

Asset Class	March 31, 2006	March 31, 2007
	%	%
Canadian Equity (%)	34.2	31.6
U.S. Equity (%)	15.4	15.8
International Equity (%)	13.6	16.6
Fixed Income (Bonds) (%)	30.0	29.2
Canadian Real Estate (%)	4.7	5.3
Money Market (Cash) (%)	2.1	1.8

Asset Mix for Quarter Ended March 31, 2007

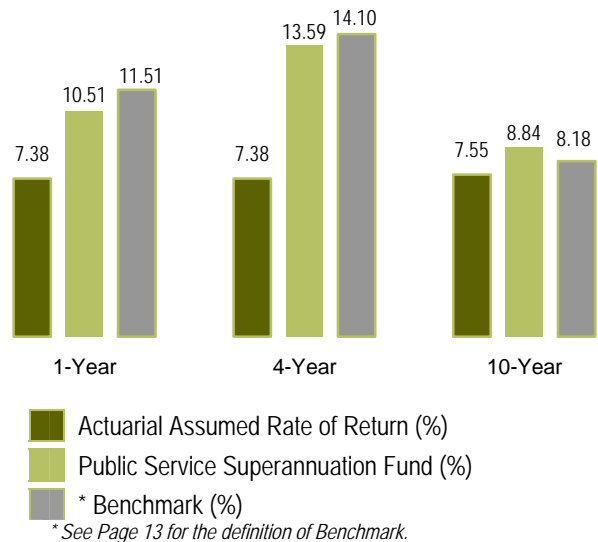


**Investment themes over the past year**

There were three major investment themes over the past year for the Fund: 1) increase allocation to international equity holdings; 2) reduce Canadian equity holdings and; 3) increase investment in real estate. The reasoning behind these themes was the reduction of portfolio risk through further diversification. These themes led to the increase of the International Equity allocation to 16.3% at March '07 from 13.6% at March '06; a decrease of Canadian Equity holdings from 34.2% at March '06 to 31.6% at March '07 and; an increase of the Real Estate allocation from 4.7% to 5.3%. Further increases to Real Estate holdings were hampered by the high valuations in this asset class experienced throughout the year.

**Investment results**

At fiscal year end assets totaled \$3.8 billion, up from \$3.6 billion at the start of the year. The return of the Fund from March '06 to March '07 was 10.5%. This was well ahead of the actuarial assumed rate of return of 7.38% during this time period but behind the benchmark return of 11.5% for the same time period. The reason for the underperformance versus the benchmark was largely due to the underperformance of Canadian Equities. Most investment managers under contract to the Fund in this particular asset class had a difficult time keeping up with the TSX Composite Index which experienced strong gains as a result of upward movements of resources and financial shares that dominate the Index and its performance.



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## INVESTMENT REPORT - CONTINUED

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### Benchmark

The benchmark is a point of reference for measuring performance. The benchmark is calculated using the policy asset mix target weightings and the performance of an acceptable broad market index.

### Going forward

The Fund will continue to concentrate on the theme of increasing diversification of the portfolio through further investments in real estate, provided conditions are suitable, and further diversifying the portfolio through shifts between asset classes. The Fund will also examine new investment strategies that will further diversify the portfolio.

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## PUBLIC SERVICE PENSION ADVISORY COMMITTEE

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In January of 2006, the Minister of Finance, in his capacity as Trustee, established a new advisory committee. The Public Service Pension Advisory Committee provides a forum where stakeholder representatives can discuss issues related to the administration and investment of the Public Service Superannuation Plan; as well as provide advice and recommendations to the Minister.

The Committee is made up of 10 nominated members, including: 5 nominated by Government, 3 nominated by NSGEU, 1 nominated by CUPE, and 1 nominated by the Nova Scotia Government Retired Employees Association.

Committee Co-chairs are currently Ian Johnson, Policy Analyst/Researcher, NSGEU, and Byron Rafuse, Controller of the Province of Nova Scotia.

The Committee meets on a regular basis, at minimum, once every three months.

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**CONSOLIDATED FINANCIAL STATEMENTS  
AS AT MARCH 31, 2007**

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NOVA SCOTIA

**Office of the Auditor General**

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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 consolidated statement of net assets available for benefits and accrued pension benefits net of deficiency of the Nova Scotia Public Service Superannuation Fund as at March 31, 2007 and the consolidated statement of changes in net assets available for benefits for the year then ended. These consolidated 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 consolidated financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits net of deficiency of the Fund as at March 31, 2007 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Handwritten signature of Jacques Lapointe in black ink.

Jacques Lapointe, CA•CIA  
Auditor General

Halifax, Nova Scotia  
May 30, 2007

PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND  
CONSOLIDATED STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS  
AND ACCRUED PENSION BENEFITS NET OF DEFICIENCY  
AS AT MARCH 31, 2007

	2007	2006
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	(000's)	(000's)
<b>Assets</b>		
Investments (Note 3)	\$ 3,898,160	\$ 3,582,798
Contributions receivable		
Employees'	2,290	2,294
Employers'	2,517	2,638
Accrued income	16,203	15,857
Prepayment and sundry receivables	2,598	1,934
Cash	2,531	3,549
<b>Total assets</b>	<u>3,924,299</u>	<u>3,609,070</u>
<b>Liabilities</b>		
Real estate mortgages (Note 4)	53,235	33,851
Accounts payable	17,993	31,191
Net investment transactions outstanding	36,024	2,264
<b>Total liabilities</b>	<u>107,252</u>	<u>67,306</u>
<b>Net assets available for benefits</b>	3,817,047	3,541,764
Actuarial assets value adjustment (Note 5)	582	276
<b>Actuarial value of net assets available for benefits</b>	<u>\$ 3,817,629</u>	<u>\$ 3,542,040</u>
<b>ACCRUED PENSION BENEFITS NET OF DEFICIENCY</b>		
Accrued pension benefits (Note 6)	\$ 4,265,104	\$ 3,952,745
Deficiency (Note 6)	(447,475)	(410,705)
<b>Accrued pension benefits net of deficiency</b>	<u>\$ 3,817,629</u>	<u>\$ 3,542,040</u>
Subsequent events (Note 9)		
Approved:		
		
Trustee - Minister of Finance		

See accompanying notes to consolidated financial statements.

**PROVINCE OF NOVA SCOTIA**  
**NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND**  
**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**FOR THE YEAR ENDED MARCH 31, 2007**

	2007	2006
	(000's)	(000's)
<b>Increase In Assets</b>		
Investment activities (Note 3)	<u>\$ 370,679</u>	<u>\$ 446,244</u>
Contributions		
Employers' – matched	55,054	47,807
Employees' – matched	55,054	47,807
Employees' – unmatched	1,271	2,073
Interest on the purchase of prior years' service	-	91
Transfers from other pension plans	<u>2,361</u>	<u>1,380</u>
	<u>113,740</u>	<u>99,158</u>
Total increase in assets	<u>484,419</u>	<u>545,402</u>
<b>Decrease in Assets</b>		
Benefits paid	183,880	173,445
Operating expenses (Note 7)	9,313	8,548
Refund of contributions and interest and transfers to other pension plans	<u>15,943</u>	<u>10,481</u>
Total decrease in assets	<u>209,136</u>	<u>192,474</u>
<b>Increase in Net Assets</b>	275,283	352,928
<b>Net Assets Available for Benefits at Beginning of Year</b>	<u>3,541,764</u>	<u>3,188,836</u>
<b>Net Assets Available for Benefits at End of Year</b>	<u>\$ 3,817,047</u>	<u>\$ 3,541,764</u>

See accompanying notes to consolidated financial statements.

PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2007

**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 that 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.

The following description is a summary only. For more complete information, reference should be made to the Act and Regulations.

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 that qualify as eligible investments under the Provincial Finance Act.

The Plan is funded by employee and matching employer contributions of 6.4% of salary up to the Year's Maximum Pensionable Earnings (the "YMPE") and 8% of salary above the YMPE. The YMPE is a figure set annually by the Canada Pension Plan ("CPP"). [Effective April 1, 2007, contribution rates below and above the YMPE increased to 7.4% and 9.6% respectively.]

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";
- age 55 with two years of service (reduced pension);
- 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 \$16.7 million for the year ended March 31, 2007 (2006 - \$16.6 million).

PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2007

2. Summary of Significant Accounting Policies

(a) Basis of Presentation:

These consolidated 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 with respect to the pension benefits in pay. These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Consolidation:

The Fund holds certain real estate investments through wholly-owned subsidiaries. The consolidated financial statements include the financial statements of the Plan and its subsidiaries.

(c) 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 values 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 current period change in market value of investments.

(d) Investments:

(i) Investments are reported as of trade date and are stated at market value as at year-end. 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.

Money market securities, fixed income securities and equities are valued at quoted market prices.

Private equity values are estimated with appropriate valuation techniques and best estimates of managers or appraisers.

(ii) The derivative contracts held by the Fund at year-end are valued using quoted market indices. The gains or losses from derivative contracts are included in the realized and unrealized gains or losses on investments.

PROVINCE OF NOVA SCOTIA  
NOVA SCOTIA PUBLIC SERVICE SUPERANNUATION FUND  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
MARCH 31, 2007

2. Summary of Significant Accounting Policies (continued)

- (iii) Real estate is composed of income producing properties and real estate pooled funds. Unless recently acquired in the current fiscal year, properties, including real estate mortgages, are valued annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. This process utilizes discounted future cash flows. In estimating future cash flows certain assumptions are made with respect to future economic conditions and rates of return.

The fair value of any real estate that has been recently acquired is based on the purchase price.

- (e) Investment Income/Loss:

Investment income/loss includes interest, dividends and operating income/loss from real estate, which is recorded on the accrual basis. Also included are gains and losses that have been realized on disposal of investments, and the unrealized appreciation and depreciation in the fair value of investments.

- (f) Non-Investment Assets and Liabilities:

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

- (g) Contributions:

Basic contributions from employers and members due to the Plan as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence and transfers from other pension plans are recorded when received.

- (h) Benefits:

Benefit payments to retired members, commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits are recorded as part of accrued actuarial liabilities.

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2. **Summary of Significant Accounting Policies (continued)**

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates.

(j) Financial Instruments:

The Fund's financial instruments include cash, contributions receivable, receivable from the Province of Nova Scotia, investments, net investment transactions outstanding, accounts payable and real estate mortgages. It is management's opinion, unless otherwise noted, that the Fund is not exposed to significant interest, currency or credit risks from its financial instruments.

The Fund's short-term financial instruments, consisting of cash, contributions receivable, receivable from the Province of Nova Scotia, net investment transactions outstanding, and accounts payable are carried at cost which, due to their short-term nature, approximates their fair value. Investments and real estate mortgages are carried at fair value as described in note 2 and are subject to interest, currency and credit risks as described in note 3.

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.

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**3. Investments and Derivatives (continued)**

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

	As at March 31, 2007		For the Year	As at March 31, 2006		For the Year
	Asset	%	Income (Loss)*	Asset	%	Income (Loss)*
	(000's)		(000's)	(000's)		(000's)
Money market	\$ 261,758	6.7	\$ 13,151	\$ 280,322	7.8	\$ 9,900
Fixed Income						
- Canadian	1,114,537	28.6	51,406	1,012,487	28.3	55,069
- US funds	35,226	0.9	2,611	32,790	0.9	698
Equities						
- Canadian	855,745	22.0	113,572	1,035,680	28.9	240,076
- US	672,901	17.3	55,178	544,140	15.2	31,957
- Other foreign	703,287	18.0	91,866	474,085	13.2	54,472
Real Estate						
- Canadian	181,464	4.7	17,010	138,497	3.9	7,556
- Pooled fund	71,565	1.8	11,086	60,997	1.7	7,774
Derivatives	1,677	0.0	14,678	3,800	0.1	38,708
Other	-	-	121	-	-	34
	<u>\$ 3,898,160</u>	<u>100.0</u>	<u>\$ 370,679</u>	<u>\$ 3,582,798</u>	<u>100.0</u>	<u>\$ 446,244</u>

\* Includes realized gains of \$169.6 million (\$184.3 million – 2006) and unrealized gains of \$75.5 million (\$131.4 million – 2006).

(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.

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**3. Investments and Derivatives (continued)**

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, the Fund:

- deals only with highly rated counterparties with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency; and
- enters into derivatives only for the purposes of managing risk.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

The following table provides details of these derivative contracts outstanding as at March 31, 2007:

Notional Principal	Original Term	Credit Rating of Counter-party	Equity Index	BA Index	Market Value
(000's)					(000's)
\$ 60,380	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	\$ 405
60,381	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	445
<u>75,029</u>	1.0 yrs	AA(low)	S&P/TSE60	CAD-BA-CDOR	<u>827</u>
<u>\$ 195,790</u>					<u>\$ 1,677</u>

Notional amounts of these derivative contracts represent the volume of outstanding transactions and serve as the basis upon which the return from and the market value of the contracts are determined.

Money market-to-equity swap contracts are denominated in Canadian dollars and are reset quarterly.

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**3. Investments and Derivatives (continued)**

- (c) Market value of investments and related income after allocating the effect of derivative contracts:

	As at March 31, 2007		For the Year	As at March 31, 2006		For the Year
	Asset (000's)	%	Income * (000's)	Asset (000's)	%	Income * (000's)
Money market	\$ 65,606	1.7	\$ 6,266	\$ 105,745	3.0	\$ 5,743
Fixed income						
- Canadian	1,114,537	28.6	51,406	1,012,487	28.3	55,069
- US Funds	35,226	0.9	2,611	32,790	0.9	698
Equities						
- Canadian	1,053,574	27.0	135,135	1,214,057	33.8	282,941
- US	672,901	17.3	55,178	544,140	15.2	31,957
- Other foreign	703,287	18.0	91,866	474,085	13.2	54,472
Real estate						
- Canadian	181,464	4.7	17,010	138,497	3.9	7,556
- Pooled fund	71,565	1.8	11,086	60,997	1.7	7,774
Other	-	0.0	121	-	0.0	34
	<u>\$ 3,898,160</u>	<u>100.0</u>	<u>\$ 370,679</u>	<u>\$ 3,582,798</u>	<u>100.0</u>	<u>\$ 446,244</u>

\* Includes realized gains of \$169.6 million (\$184.3 million - 2006) and unrealized gains of \$75.5 million (\$131.4 million - 2006).

(d) Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market and credit risk. The Fund has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks.

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**3. Investments and Derivatives (continued)**

(i) 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, 33% fixed income securities and 7% real estate. 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.

The following breakdown of fixed income securities as at March 31, 2007 is summarized in the following table:

	March 31, 2007						March 31, 2006	
	Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	Total	Average effective yield	Total	Average effective yield
	(000's)	(000's)	(000's)	(000's)	(000's)	%	(000's)	%
Money market	\$ 261,758	-	-	-	\$ 261,758	4.5	\$ 280,322	3.8
Bonds and debentures	27,954	\$ 406,649	\$ 209,388	\$ 345,575	989,566	5.0	884,534	5.3
Real return bonds	-	-	-	124,971	124,971	2.9	127,953	3.1
US Fixed income	<u>740</u>	<u>5,390</u>	<u>25,257</u>	<u>3,839</u>	<u>35,226</u>	7.2	<u>32,790</u>	6.5
Total	<u>\$ 290,452</u>	<u>\$ 412,039</u>	<u>\$ 234,645</u>	<u>\$ 474,385</u>	<u>\$ 1,411,521</u>		<u>\$ 1,325,599</u>	

The average effective yield reflects the estimated annual income of a security as a percentage of its year-end market value.

(ii) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market.

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**3. Investments and Derivatives (continued)**

The Fund's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Guidelines, and to utilize derivative financial instruments, which are designed to mitigate the impact of market risk.

(iii) 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 "BBB" and higher. In addition, the Plan limits derivative contract risk by dealing with counterparties that have a minimum "A" credit rating.

(iv) Foreign currency risk

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

The Plan's currency exposure from net investment assets as at March 31, 2007 is summarized in the following table.

Currency	March 31, 2007	March 31, 2006
	(000's)	(000's)
Canada	\$ 2,407,839	\$ 2,506,128
United States	770,726	610,995
Euro zone	223,758	136,850
Japan	168,515	136,475
United Kingdom	127,314	78,455
Other	129,593	96,455
Total	<u>\$ 3,827,745</u>	<u>\$ 3,565,358</u>

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**4. Real estate mortgages**

Real estate mortgages are carried at fair value and have various terms to maturity to 2018 with each mortgage secured by a specific real property. Nominal rates range from 5.0% to 8.0%

Scheduled principal repayments in each of the next five years, beginning April 1, 2007 are as follows:

2007	\$ 3,624
2008	1,082
2009	5,770
2010	830
2011	10,117
Thereafter	<u>30,224</u>
Total	<u>\$ 51,647</u>

The real estate mortgage payables are valued at fair value based on prevailing interest rates.

**5. Actuarial Asset Value Adjustment**

The actuarial asset value adjustment is comprised of the following:

	<u>2007</u> (000's)	<u>2006</u> (000's)
Service Buy-Back Receivable	<u>\$ 582</u>	<u>\$ 276</u>

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

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**6. Accrued Pension Benefits and Deficiency**

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, Mercer Human Resource Consulting, performed a valuation as at December 31, 2006 and issued their report in June 2007. The report indicated that the Plan had an unfunded liability of \$436.4 million (December 31, 2005 - \$471.8 million). A projection to March 31, 2007, applying the same assumptions, indicated an unfunded liability of \$447.5 million (March 31, 2006 - \$410.7 million).

The following table reflects the unfunded liability as at March 31, 2007 and as at March 31, 2006.

	2007	2006
	(000's)	(000's)
Actuarial value of assets:	\$ 3,817,629	\$3,542,040
Accrued pension benefits:	<u>4,265,104</u>	<u>3,952,745</u>
Unfunded liability:	<u>(\$ 447,475)</u>	<u>(\$ 410,705)</u>

	2007	2006
<b>Reconciliation of changes in accrued pension benefits:</b>	(000's)	(000's)
Accrued pension benefits at beginning of year	\$ 3,952,745	\$ 3,721,541
Interest on accrued pension benefits at 7.38%	291,614	274,557
Contributions and transfers from other pension plans	113,740	99,158
Current service cost in excess of contributions	16,803	11,545
Net impact of experience gains and losses relating to accrued pension benefits	83,834	-
Benefits paid	6,191	29,870
Refunds of contributions and interest and transfers to other pension plans	(183,880)	(173,445)
Accrued pension benefits at end of year	<u>(15,943)</u>	<u>(10,481)</u>
	<u>\$ 4,265,104</u>	<u>\$ 3,952,745</u>

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6. Accrued Pension Benefits and Deficiency (continued)

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, 2006	Valuation December 31, 2005
Inflation	2.5% per annum	3.0% per annum
Average Salary Increase	Inflation plus merit ranging from 0.0% to 2.5% per annum	Inflation plus 0.5% plus merit ranging from 0.0% to 2.5% per annum
Real Rate of Return on Investments	4.25% per annum	4.25% per annum
Average Retirement Age	35% - earliest age for unreduced pension, but not before age 54; 65% - earlier of age 60 and 35 years service	20% - earliest age for unreduced pension, but not before age 55; 80% - earlier of age 60 and 35 years service
Mortality	UP-94 projected to 2015 using scale 'AA'	GAM-94 projected to 2000 using scale 'AA'

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**7. 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.

	<u>2007</u>	<u>2006</u>
	(000's)	(000's)
<b>Plan Administration</b>		
Professional services	\$ 169	\$ 165
Salaries	1,010	805
Supplies and services	225	167
Travel	17	6
Other	<u>197</u>	<u>90</u>
	<u>\$ 1,618</u>	<u>\$ 1,233</u>
<b>Investment Expenses</b>		
Investment management fees	\$ 7,294	\$ 6,596
Professional services	119	57
Salaries	196	471
Supplies and services	18	114
Travel	6	12
Other	<u>62</u>	<u>65</u>
	<u>7,695</u>	<u>7,315</u>
<b>Total Operating Expenses</b>	<u>\$ 9,313</u>	<u>\$ 8,548</u>

**8. Related Party Transactions**

Investments include debentures of the Province of Nova Scotia with total market value of \$14.4 million (0.4% of total assets) as at March 31, 2007 (\$14.4 million (0.4% of total assets) as at March 31, 2006).

**9. Subsequent Event**

The Public Service Superannuation Act was amended to increase member contribution rates effective April 1, 2007. Each member is required to contribute 7.4% (previously 6.4%) of salary up to the YMPE plus 9.6% (previously 8.0%) of salary in excess of the YMPE. Contributions are matched by the Province.

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