Nova Scotia Association of Health Organizations (Long-Term Disability Plan)

Financial statements

March 31, 2020

Building a better working world

Independent auditor's report

To the Members of the
Nova Scotia Association of Health Organizations (Long-Term Disability Plan)

Opinion

We have audited the financial statements of the **Nova Scotia Association of Health Organizations (Long-Term Disability Plan)** [the "Plan"], which comprise the statement of financial position as at March 31, 2020, and the statement of changes in net assets available for benefits and statement of changes in accrued long-term disability benefits for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at March 31, 2020, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants

Halifax, Canada
June 25, 2020

Nova Scotia Association of Health Organizations
(Long-Term Disability Plan)

Statement of financial position

As at March 31

	2020	2019
	$	$
Assets		
Cash on deposit with custodian	**796,639**	1,908,796
Contributions receivable		
Employers	**2,438,451**	1,632,816
Employees	**2,436,867**	1,634,264
Prepaid expenses	**10,977**	8,638
Prepaid disability benefits	**2,314,519**	2,893,484
Capital assets, net	**26,833**	28,750
Investments, at fair value *[note 3]*	**179,870,055**	187,042,079
Total assets	**187,894,341**	195,148,827
Liabilities		
Accounts payable and accrued liabilities	**506,203**	271,003
Due to NSAHO Association Fund *[note 8]*	**1,157,028**	871,337
Total liabilities	**1,663,231**	1,142,340
Net assets available for benefits	**186,231,110**	194,006,487
Contingency *[note 9]*		
Accrued long-term disability benefits and surplus		
Accrued long-term disability benefits *[note 6]*	**200,540,000**	195,312,000
Deficit	**(14,308,890)**	(1,305,513)
Total accrued long-term disability benefits and surplus	**186,231,110**	194,006,487

See accompanying notes

On behalf of the Board:

Director Director

Nova Scotia Association of Health Organizations
(Long-Term Disability Plan)

Statement of changes in net assets available for benefits

Year ended March 31

	2020	2019
	$	$
Increase in net assets		
Investment income *[note 5]*	**6,420,057**	5,726,187
(Decrease) increase in fair value of investments	**(8,514,783)**	2,754,676
Employers' contributions	**19,742,194**	19,161,181
Employees' contributions	**19,710,101**	19,208,717
Total increase in net assets	**37,357,569**	46,850,761
Decrease in net assets		
Legal fees	**1,344,234**	1,562,824
Administrative fees to claims paying agent	**1,634,885**	1,485,194
Investment management fees	**999,371**	1,159,402
Path Program [formerly called EASE]	**1,270,196**	921,527
Rehabilitation costs	**872,371**	813,443
Salaries and benefits	**843,564**	744,342
Operating expenses	**275,956**	311,901
Actuarial and consulting fees	**86,016**	246,374
Computer software and maintenance	**79,956**	66,685
Computer services	**58,593**	50,983
Custodial fees	**57,686**	49,529
Trustee and staff education	**30,839**	44,585
Appeal board	**74,459**	38,465
Travel	**17,660**	31,049
Insurance	**14,806**	14,806
Audit fees	**18,400**	11,823
	7,678,992	7,552,932
Disability benefits payments	**37,453,954**	34,589,047
Total decrease in net assets	**45,132,946**	42,141,979
Net (decrease) increase in net assets for the year	**(7,775,377)**	4,708,782
Net assets available for benefits, beginning of year	**194,006,487**	189,297,705
Net assets available for benefits, end of year	**186,231,110**	194,006,487

See accompanying notes

Nova Scotia Association of Health Organizations
(Long-Term Disability Plan)

Statement of changes in accrued long-term disability benefits

Year ended March 31

	2020	2019
	$	$
Actuarial value of net assets available for benefits	**186,231,110**	194,006,487
Actuarial present value of accrued long-term disability benefits, beginning of year	**195,312,000**	183,623,000
Expected cost of new disabilities	**37,680,000**	36,444,000
Disability benefit payments	**(38,352,000)**	(35,616,000)
Administrative and rehabilitation costs	**(2,507,000)**	(2,299,000)
Interest on the above components	**10,267,000**	10,242,000
Actuarial (loss) gain	**(1,860,000)**	2,918,000
Actuarial present value of accrued long-term disability benefits, end of year	**200,540,000**	195,312,000
Deficit	**(14,308,890)**	(1,305,513)

See accompanying notes

Notes to financial statements

March 31, 2020

1. Description of the Plan

The Nova Scotia Association of Health Organizations [the “Association”] is incorporated under a Special Act of the Province of Nova Scotia and operates to assist member institutions in providing health care to the community. One of the Association’s responsibilities is the administration of a Long-Term Disability Plan [the “Plan”]. The Plan is a Trust settled under the laws of Nova Scotia on March 1, 1990. The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan text.

General

The Plan covers employees of participating member organizations of the Association. Under the Plan, contributions are made by the employees and employers of members of the Association. The Plan’s objective is to provide long-term disability coverage for its members.

Funding policy

The Plan is funded by employee and employer contributions and any investment income accruing to the Plan. The contribution rate in 2020 was 3.34% [2019 – 3.34%] of a member’s insured salary and is split equally between the employee and employer.

Disability benefits

The amount of benefit payable to a member is 70% of the pre-disability salary up to a maximum benefit of $20,000 monthly, subject to various offsetting amounts.

2. Summary of significant accounting policies

The following is a summary of the significant accounting policies followed by management of the Plan in the preparation of these financial statements:

Basis of presentation

These financial statements are prepared on a going concern basis and are prepared in accordance with Canadian accounting standards for pension plans as set out in Section 4600, *Pension Plans*, in Part IV of the *CPA Canada Handbook – Accounting*. These financial statements present the aggregate financial position of the Plan as a separate financial reporting entity independent of the employers and members and are prepared to assist members and others in reviewing the activities of the Plan for the fiscal year but they do not portray the funding requirements of the Plan or the benefit security of individual members.

The Plan has elected to apply accounting standards for private enterprises for those items not covered by Section 4600, *Pension Plans*.

Measurement uncertainty

The preparation of financial statements 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 reporting period. Actual results could differ from these estimates.

Contributions

Contributions from employees of member organizations and contributions from member organizations are recorded in the period during which payroll deductions are made.

Investments

Investment transactions are recorded as of the trade date. Net realized gains and losses on the sale of investments and unrealized gains and losses in the fair values of investments are recognized in the statement of changes in net assets available for benefits as changes in the fair value of investments. Interest and dividends earned on investments are recorded on an accrual basis and are included in investment income. Transaction costs are expensed as incurred.

Investments are presented at fair value. Fair value is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of investment assets and liabilities is determined as follows:

[a] Units in investment funds, including pooled funds and hedge funds, are valued based on fair value information provided by the fund administrators.
[b] Bonds, debentures, equities, preferred shares and derivative financial instruments are valued by reference to quoted market prices. Where available, publicly traded securities are valued using closing trade prices.

Investments denominated in foreign currencies are translated into Canadian dollars at rates of exchange at year-end.

Realized investment income denominated in foreign currencies is translated at the rates of exchange when the amounts are recognized.

Fair value of financial instruments

Investment assets and liabilities are measured at fair value as disclosed in note 3. The carrying amounts of other financial assets and liabilities approximate fair value due to their short-term nature.

Capital assets

Capital assets held primarily for use in the operations of the Plan are measured at cost less accumulated depreciation or amortization and any impairment loss.

Capital assets as at year-end, relate to the benefit administration system.

Allocation of expenditures

The costs of each function include the costs of personnel and other expenditures that are directly related to the function. General support and other costs are not allocated.

3. Investments

The investment objectives of the Plan are to provide long-term security of long-term disability benefits to members and to minimize any increases in contributions required by members and employers. A strategy of investing in assets of Canadian and foreign equities, bonds, debentures and money market securities is aimed at achieving these objectives.

Fair values recognized in the statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values as follows:

- Level 1 - Unadjusted quoted prices in an active market for an identical asset or liability.
- Level 2 - Inputs other than quoted prices in Level 1 that are observable directly [prices] or indirectly [derived from a price] for an asset or liability.
- Level 3 - Inputs for the asset or liability that are not based on observable market data and are developed often by judgment.

The Plan's investments are recorded at fair market value. At March 31, 2020 the Plan is 100% invested in units of various investment funds [2019 – 100%]. The funds predominately invest in the following underlying assets:

	2020		2019	
Investments in funds:	$	%	$	%
Fixed income [Level 1]	**48,494,188**	**26.96**	74,020,326	39.57
Equities				
Canadian [Level 1]	**12,340,547**	**6.86**	14,987,326	8.01
Foreign [Level 1, 2]	**87,826,589**	**48.83**	78,398,834	41.92
Real estate [Level 3]	**31,208,731**	**17.35**	19,635,593	10.50
	179,870,055	**100.00**	187,042,079	100.00

The Plan holds units in real estate investment pooled funds and the fair value of the units are calculated using net asset values based on the fair values of the underlying real estate properties. The fund manager may adjust individual property values periodically due to changing market conditions.

There were no transfers between levels during the year. Investments in funds concentrated in foreign equities includes $18,280,750 of investments categorized as level 2 [2019 – nil].

4. Financial risks and risk management

The Plan's investments are susceptible to a variety of financial risks: interest rate risk, foreign currency risk, market price risk, credit risk and liquidity risk. In order to manage these risks, the Plan employs the use of professional investment managers. The Association monitors adherence to the Plan's investment policies and the performance of the investment managers and fund managers relative to the applicable benchmarks and rebalancing action is taken where appropriate.

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 Plan's business due to prolonged timing differences between cash flows related to the assets and liabilities of the Plan.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets. The Plan's 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 a policy to maintain an asset mix of approximately 50% equities, 10% real estate, and 40% fixed income securities. 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.

Excluding all other variables, a 50 basis point increase in interest rates would increase the fair value of the Plan's investments by $2,729,657 [2019 – $3,912,087]. Similarly, a 50 basis point decrease in interest rates would decrease the fair value of the Plan's investments by $2,729,657 [2019 – $3,912,087].

Foreign currency risk

Foreign currency exposure arises from the Plan's holding of foreign currency denominated equities. Foreign currency risk is controlled by limiting investments in foreign stocks through asset allocation guidelines.

Excluding all other variables, a 10% increase in the Canadian dollar against all other currencies would decrease the fair value of the Plan's investments by $6,505,838 [2019 – $6,538,483]. Similarly, a 10% decrease in the Canadian dollar against all other currencies would increase the fair value of the Plan's investments by $6,505,838 [2019 – $6,538,483].

Market price risk

Market price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Market price risk does not include interest rate risk or foreign currency risk, which are also discussed in the above note. Market price risk is managed by the Plan through the construction of a diversified portfolio of instruments traded on various markets across various industries.

Notes to financial statements

March 31, 2020

The Plan's investments in pooled funds that hold equities are sensitive to market fluctuations. Excluding all other variables, a 10% increase in market values of all equities would increase the fair value of the Plan's investments by $8,127,042 [2019 – $9,264,116]. Similarly, a 10% decrease in market values of all equities would decrease the fair value of the Plan's investments by $8,127,042 [2019 – $9,264,116].

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.

Credit risk is controlled by limiting, to 5% or less, the percentage of the market value of fixed income securities invested in a single security not guaranteed by the Government of Canada or by a Canadian province and by restricting investments in a group of equities whose returns are expected to be highly correlated.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Due to the long-term nature of the Plan's long-term disability benefits obligation and the related cash flows, asset mix decisions reflect the cash requirements of the Plan. Cash requirements of the Plan are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Plan.

5. Investment income

Investment income relates to:

	2020	2019
Investments in funds:	$	$
Fixed income	**1,912,132**	2,281,052
Equities		
Canadian	**938,985**	848,886
Foreign	**3,011,826**	2,054,527
Real estate	**544,130**	528,141
Short-term money market	**12,984**	13,581
	6,420,057	5,726,187

6. Accrued long-term disability benefits

The actuarial present value of accrued long-term disability benefits as at March 31, 2019 was extrapolated from the date of the last formal valuation of the Plan's liabilities as at August 31, 2018 and was prepared by Mercer (Canada) Limited.

Notes to financial statements

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The economic assumptions used in determining the accrued long-term disability benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were as follows:

Discount rate	2020 – 5.60% 2019 – 5.30%
IBNR reserve	6.4 months of the annual calculated cost of new disabilities for the year
Expenses	6.8% loading applied to the net monthly benefit to reflect future administrative expenses for existing claimants in the benefit obligation [2019 – 6.8%]
Incidence of disability	1987 Basic Group Long-Term Disability Incidence Table adjusted to reflect the experience of the Plan's group of participating employers using Occupational Weights specific to seven different types of occupations within the health sector
Termination of disability	2009 Canadian Institute of Actuaries Group Long-Term Disability Table adjusted to take into account the Plan's experience over the six years prior to July 31, 2018 [2018 – adjusted for experience over the six years prior to August 31, 2015]
CPP and WCB offsets	In the calculation of the obligation, 70% of claimants with claim duration of six years or less will receive CPP offsets in the future
Occupational load	3.00%

The liabilities described above do not include any amount relating to future expenses that may be incurred to wind-up the Plan.

The effective date of the next formal actuarial valuation is as of August 31, 2020.

7. Capital management

The capital of the Plan is represented by the net assets available for benefits. The Plan's objectives when managing its capital are to be in compliance with regulatory requirements and to satisfy the Plan's obligations to pay benefits. In meeting these objectives, the Association periodically reviews the funding and investment policies of the Plan.

8. Related party transactions

During the year, the NSAHO Association Fund provided services to the Plan. The costs associated with the administrative services were recovered from the Plan during the year. The recoverable costs for the year ended March 31, 2020 were $3,982,560 [2019 – $4,128,206] and are included in expenses. The transactions were in the normal course of operations and were measured at the exchange amount.

The amount due to NSAHO Association Fund is unsecured, non-interest bearing and has no set terms of repayment.

Notes to financial statements

March 31, 2020

9. Contingency

Certain actions have been initiated against the Plan regarding denial of benefits. An actuarial calculation prepared by Mercer (Canada) Limited has determined the potential liability for the claims as at March 31, 2020 to be approximately $10,718,000 [2019 – $6,967,000]. The outcome of these claims is not determinable.