

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

Financial statements  
March 31, 2021



# 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, 2021, 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, 2021, 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.

Halifax, Canada  
June 24, 2021

*Ernst & Young LLP*

Chartered Professional Accountants

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

**Statement of financial position**

As at March 31

	2021	2020
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash on deposit with custodian	743,667	796,639
Contributions receivable	4,955,880	4,875,318
Prepaid expenses	11,743	10,977
Prepaid disability benefits	3,214,462	2,314,519
<b>Total current assets</b>	<b>8,925,752</b>	<b>7,997,453</b>
Capital assets, net	21,083	26,833
Investments, at fair value <i>[note 3]</i>	210,278,378	179,870,055
<b>Total assets</b>	<b>219,225,213</b>	<b>187,894,341</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	738,266	506,203
Due to NSAHO Association Fund <i>[note 8]</i>	542,661	1,157,028
<b>Total liabilities</b>	<b>1,280,927</b>	<b>1,663,231</b>
<b>Net assets available for benefits</b>	<b>217,944,286</b>	<b>186,231,110</b>
Contingency <i>[note 9]</i>		
<b>Accrued long-term disability benefits and deficit</b>		
Accrued long-term disability benefits <i>[note 6]</i>	221,887,000	200,540,000
Deficit	(3,942,714)	(14,308,890)
<b>Total accrued long-term disability benefits and deficit</b>	<b>217,944,286</b>	<b>186,231,110</b>

*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

	2021	2020
	\$	\$
<b>Increase in net assets</b>		
Investment income <i>[note 5]</i>	6,228,907	6,420,057
Increase (decrease) in fair value of investments	30,563,996	(8,514,783)
Contributions	41,008,076	39,452,295
<b>Total increase in net assets</b>	<b>77,800,979</b>	<b>37,357,569</b>
<b>Decrease in benefits – claims, settlements, investment fees and operating expenses</b>		
Total claims expense	40,484,489	39,961,210
Settlements	1,199,397	898,423
Professional and legal expenses	764,770	596,357
Investment management fees expense	1,063,492	999,371
Consulting expense	130,931	86,016
Operating expenses		
Salaries and benefits	855,178	843,564
Indirect expenses	174,804	223,608
Path Program provider expense	1,197,363	1,270,195
Other operating expense	217,378	254,202
	<b>2,444,723</b>	<b>2,591,569</b>
<b>Increase (decrease) in net assets</b>	<b>46,087,802</b>	<b>45,132,946</b>
	<b>31,713,177</b>	<b>(7,775,377)</b>

*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

	<b>2021</b>	<b>2020</b>
	\$	\$
<b>Actuarial value of net assets available for benefits</b>	<b>217,944,286</b>	186,231,110
<b>Actuarial present value of accrued long-term disability benefits, beginning of year</b>	<b>200,540,000</b>	195,312,000
Expected cost of new disabilities	<b>41,317,000</b>	37,680,000
Disability benefit payments	<b>(39,322,000)</b>	(38,352,000)
Administrative and rehabilitation costs	<b>(2,362,000)</b>	(2,507,000)
Interest on the above components	<b>10,899,000</b>	10,267,000
Actuarial gain (loss)	<b>10,815,000</b>	(1,860,000)
<b>Actuarial present value of accrued long-term disability benefits, end of year</b>	<b>221,887,000</b>	200,540,000
<b>Deficit</b>	<b>(3,942,714)</b>	(14,308,890)

*See accompanying notes*

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

**Notes to financial statements**

March 31, 2021

**1. Description of the Plan**

The Nova Scotia Association of Health Organizations [the “Association” or “NSAHO”] 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 2021 was 3.34% [2020 – 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*.

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**Use of estimates**

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 period. Actual results could differ from these estimates resulting in differences.

**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 stated at their fair values on the basis of the reported net asset value per unit or share for the respective fund.
- [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 Fund 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.

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**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 pooled funds with concentrations in Canadian and foreign equities, bonds, debentures and money market securities, real estate, and alternative investments 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 1 primarily includes investments in funds which have available prices in an active market with no redemption restrictions.
- 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 are based on non-observable market data that have a significant impact on the valuation. Level 3 primarily includes investments in funds with redemption restrictions and real estate.

The Plan's investments are recorded at fair market value. At March 31, 2021, the Plan is 100% invested in units of various investment funds [2020 – 100%]. The funds predominately invest in the following underlying assets:

Investments in funds	2021		2020	
	\$	%	\$	%
Fixed income [Level 1]	<b>58,155,107</b>	<b>27.65</b>	48,494,188	26.96
Equities				
Canadian [Level 1]	<b>16,744,328</b>	<b>7.97</b>	12,340,547	6.86
Foreign [Level 1, 2, 3]	<b>113,015,351</b>	<b>53.74</b>	87,826,589	48.83
Real estate [Level 3]	<b>22,363,592</b>	<b>10.64</b>	31,208,731	17.35
	<b>210,278,378</b>	<b>100.00</b>	179,870,055	100.00

The Plan holds units in real estate investment pooled funds and the fair values 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 include \$20,221,907 of investments categorized as Level 2 [2020 – \$18,280,750] and \$9,301,243 categorized at level 3 [2020 – \$4,486,452].

**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.

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**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, 30% fixed income securities and 20% alternatives and 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.

Excluding all other variables, a 50 basis point change in interest rates would change the fair value of the Plan's investments by \$2,168,022 [2020 – \$2,729,657].

**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% change in the Canadian dollar against all other currencies would change the fair value of the Plan's investments by \$8,349,220 [2020 – \$6,505,838].

**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. The maximum risk resulting from investments in funds is limited to the Plan's investment in each investment fund.

The Plan's investments in pooled funds that hold equities are sensitive to market fluctuations. Excluding all other variables, a 10% change in market values of all equities would change the fair value of the Plan's investments by \$10,023,653 [2020 – \$8,127,042].

**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.

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**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 (loss) relates to the following:

<b>Investments in funds</b>	<b>2021</b>	<b>2020</b>
	\$	\$
Fixed income	<b>2,022,872</b>	1,912,132
Equities		
Canadian	<b>464,872</b>	938,985
Foreign	<b>3,350,110</b>	3,011,826
Real estate	<b>422,421</b>	544,130
Cash and foreign exchange	<b>(31,368)</b>	12,984
	<b>6,228,907</b>	6,420,057

**6. Accrued long-term disability benefits**

The actuarial present value of accrued long-term disability benefits as at March 31, 2021 was extrapolated from the date of the last formal valuation of the Plan's liabilities as at August 31, 2020 and was prepared by Mercer (Canada) Limited.

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	2021 – 5.0% 2020 – 5.6%
Incurred but not reported reserve	2021 – 6.0 months of the annual calculated cost of new disabilities for the year [2020 – 6.4 months]
Expenses	6.5% loading applied to the net monthly benefit to reflect future administrative expenses for existing claimants in the benefit obligation [2020 – 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

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Termination of disability	2020 – 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
	2021 – 2015 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, 2020
Canada Pension Plan and Workers Compensation Board 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	3.0%

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, 2022.

**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, 2021 were \$4,058,066 [2020 – \$3,982,560] 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.

**9. Contingency**

Certain actions have been initiated against the Plan regarding denial of benefits. An actuarial calculation prepared by Mercer (Canada) Limited has estimated the potential unrecorded liability for such claims as at March 31, 2021 to be \$9,877,000 [2020 – \$10,718,000]. The outcome of these claims is not determinable.

**10. Reclassification and comparative figures**

Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements.