7.

FINANCE - NOVA SCOTIA PUBLIC SERVICE LONG TERM DISABILITY PLAN TRUST FUND

BACKGROUND

6.5 The Nova Scotia Public Service Long Term Disability (LTD) Plan Trust Fund (the 'Plan') was established by Order in Council 85-1219 in 1985. The Plan was initially funded by a transfer of $13,126,860 from what was known as the Group Life Assurance Plan Premium Fund. Amounts had accumulated in that Fund from several sources including group life assurance experience rebates and Unemployment Insurance (now Employment Insurance) premium reductions.

6.6 The terms and conditions under which the Plan is administered are detailed in a Trust Agreement between the Nova Scotia Government and General Employees' Union (NSGEU), the Province, and the Trustees. Four Trustees are appointed from each of the Union and the Province and have joint responsibility for the operation and administration of the Plan. The Chair of the Board of Trustees alternates between representatives of the Union and the Province. The Union and the Province are known collectively as the Plan sponsors.

6.7 Participation in the Plan is defined in Schedules A and B to the Trust Agreement. The largest participating group is civil servants as defined in Section 2(g) of the Civil Service Collective Bargaining Act as well as non-bargaining civil servants. These represent 6,907 of the 12,297 participants in the Plan, or 56.2%, as of September 30, 2002. Other groups include certain staff at the Queen Elizabeth II Health Sciences Centre, members of the Canadian Union of Public Employees (CUPE) and employees of various crown entities such as Nova Scotia Innovation Corporation and Municipal Finance Corporation.

6.8 The employer (primarily defined as the Province of Nova Scotia) and employees each contribute 50% of the premiums for the Plan. Total premiums range from 3% to 4.5% of bi-weekly salary, with the majority contributing at a rate of 3.32%. Benefits are now set at 65% of salary to a maximum of $3,000 bi-weekly. Participation in the Plan is mandatory for Provincial employees, including staff and management of the Office of the Auditor General, except for certain part-time positions.

6.9 The LTD Office employs four full-time personnel. A private sector company administers claims eligible for benefits under the LTD Plan. This company has been the claims administrator since the Plan was established. Other service providers include an investment manager, an investment trustee and an actuary. The Plan's annual financial statements are audited by an external auditor.

6.10 This was our first audit of the N.S. LTD Plan Trust Fund.

RESULTS IN BRIEF

7.7 The following are the principal observations from our audit.

- After changes to the Plan implemented in May 2002, the unfunded liability for the N.S. Long Term Disability Plan Trust Fund is estimated to be $38.9 million at June 1, 2002. The impact of recent Plan changes designed to reduce this deficit over a 15-year period needs to be managed and closely monitored to ensure effectiveness. The Board of Trustees needs to develop a plan to accomplish this.

- We recommend that the impact of government and other employers' short-term illness (STI) policies and procedures on LTD claims be examined by the Public Service Commission (PSC). There is a need to integrate and coordinate aspects of these benefit programs to better facilitate back-to-work objectives. This may reduce claims incidence in LTD as well.

- A review of the Plan's governance function is required. This review should include a discussion of alternatives to the present arrangements to ensure the resulting Board structure addresses the concerns regarding fiduciary responsibility to current contributors and beneficiaries expressed by the Trustees.

- We commend the Board in its efforts to include performance evaluation in its proposed service contract for claims administration. This contract is currently under negotiation. In addition, we recommend that the Board develop a schedule for the periodic review of files (likely on a sample basis) as part of the overall evaluation of the claims administration function.

- An annual report is prepared for the Plan as required by the Trust Agreement. Future annual reports should clearly indicate the impact the recent changes have had in addressing the unfunded liability of the Plan.

- We recommend that the Trustees perform an analysis to determine whether services procured from external service providers result in due regard for economy and efficiency. If it is determined that these arrangements continue to be sole-sourced, this decision should be documented in the Board minutes.

AUDIT SCOPE

7.8 In 2001 we began an audit of the Nova Scotia Long Term Disability Plan Trust Fund. The summary objectives for this assignment were to assess the overall governance, accountability, and performance management of the Plan, and to conclude whether there is adequate:

- compliance with statutory and other enabling authorities or requirements;

- control systems, procedures and practices; and

- due regard for economy and efficiency.

7.9 General criteria were used to facilitate our review. These criteria were discussed with management at the LTD Office, the Board of Trustees and the Plan sponsors. The criteria are noted in Exhibit 7.1, along with our assessment of the extent to which each one was met. The Exhibit also includes our key suggestions for change. In order to implement the key suggestions noted in this Exhibit, the Board of Trustees needs to ensure the LTD Office is adequately staffed.

7.10 Our approach to this assignment consisted of interviews with management at the LTD Office, the current Board Chair, past Board Chairs and other Trustees. We interviewed the President of the NSGEU, and the current and past Commissioner of the Public Service Commission (formerly the Department of Human Resources) in their capacity as Plan sponsors. We also met with representatives from certain of the service providers to the Plan, and with selected staff at both the Department of Finance and the Public Service Commission. Finally, we conducted an extensive review of documentation on the Plan including a review of Board minutes from January 1990 to September 2002.

PRINCIPAL FINDINGS

Financial Condition and Funding Strategy

7.11 An actuarial liability update prepared for the Plan at June 1, 2002 indicates a liability of $63.8 million, subsequent to the May 2002 changes to the Plan. The market value of the Plan's assets at that date was $24.9 million. This yields an unfunded liability of $38.9 million. An actuarial valuation of the Plan was performed as at March 31, 2001, prior to the May 2002 changes. At that time, the unfunded liability was estimated to be $46.3 million.

7.12 A history of the actuarially-determined unfunded liability can be found in Exhibit 7.2. As can be seen from the information provided, the Plan had an unfunded liability at March 31, 1988, about two years after its inception. A full actuarial valuation of the Plan's assets and liabilities is performed periodically. The results of these valuations are reflected in this Exhibit.

7.13 Growth in the unfunded liability was offset by strong performance in the investment portfolio of the Plan in 1998. Recent changes to the Plan have reduced the unfunded liability to $38.9 million, as noted above. Prior to implementation of these changes in May 2002, the unfunded liability had risen to $52.1 million as at March 31, 2002. (See further details of these changes in paragraphs 7.19 to 7.23.)

7.14 Several factors have contributed to the Plan's current financial difficulties, including the following.

- We were informed that the Plan was intended to accommodate about 250 beneficiaries although we could not find documentation to support this statement. A chart describing the number of beneficiaries since 1986 is included as Exhibit 7.3. At September 30, 2002, there were 757 active claims (i.e., individuals receiving disability claim payments).

- LTD benefits do not commence until after short-term illness benefits expire. These benefits are available for 100 consecutive work days and are referred to as the elimination period for purposes of LTD. They are available to civil servants and certain other employees specified in Schedules A and B to the Trust Agreement. Further discussion of the possible impact of the STI period on LTD applicants is noted in paragraphs 7.28 to 7.31.

- A group with a high incidence rate joined the Plan in 1988. No provision was made for the costs associated with the members of this group who were on disability leave when they joined the LTD Plan. The Plan did not receive any payments directly associated with offsetting the value of the claim obligation assumed.

- In addition, the Plan's actuary suggested a premium rate for this group to reflect their disability incidence rate. It was ultimately decided by the Plan sponsors not to use this suggested rate due to the high monthly premiums. Instead premium rates for NSGEU contributors were increased to reflect the increased cost and risk associated with this group. These increased rates became effective March 1995.

- Recommendations of the Board of Trustees to deal with the declining financial position of the Plan have not been dealt with on a timely basis by the Plan sponsors. This is discussed further in paragraph 7.32.

7.15 The Board of Trustees and the Plan sponsors have undertaken initiatives in an attempt to deal with the unfunded liability. In 1996 a Joint Review Committee (JRC) was formed. The Committee consisted of members from the NSGEU and the Province and was established to review the overall operations and administration of the LTD Fund. The Committee issued a report to the Board of Trustees in 1999 which included recommendations on rehabilitation and other issues. The Committee noted that *"In general, a combination of short-term savings, and long-term operational, philosophical changes, is required for long-term survival. Most of all, there is a need for a fundamental shift in focus toward facilitating return to work, rather than protecting the status quo."*

7.16 In addition to making recommendations on the Plan, the JRC also requested a comparison study of LTD programs across Canada. The study was conducted by an independent consultant and indicated the following:

- By category of employment, the Nova Scotia LTD Plan experience ranged from 150% to over 500% of the claims incidence rates seen in other jurisdictions.
- There was no indication that comparable plans are having more success than the Nova Scotia LTD Plan in returning claimants to work and off LTD benefits.
- Benefits payable under the Nova Scotia LTD Plan did not appear to be significantly above those payable under other public sector programs.

7.17 *Funding strategy* - The most significant response to the financial condition of the Plan was the development of a funding strategy. The funding strategy was prepared by the (then) Executive Director and approved by the Board of Trustees in December 2000. The strategy was prepared based on a review of reports from the actuary and other consultants, and the recommendations of the JRC.

7.18 Recommendations related to eight areas were identified in the funding strategy. These are noted below:

- claims administration and management;
- integration with public service superannuation plans;
- prevention services (to prevent injury or illness before it occurs);
- coordination and communication (to assist all stakeholders in developing effective and efficient means of service delivery);
- evaluation of claims incidence (through statistical analysis and the development and implementation of disability management programs in the workplace);
- development of incentive programs (for example, penalizing higher incidence employers through higher premiums);

- modifications to benefit levels; and
- evaluation of claims administration process.

7.19 *Plan changes* - Effective May 2002, significant changes were made to the Plan in an effort to improve its financial condition and long-term viability. These amendments are noted in Exhibit 7.4.

7.20 The changes were proposed and analyzed through the fall and winter of 2001-02. There was collaboration between the Plan sponsors and the Board, although the sponsors ultimately approved the changes. As part of the discussion of alternatives, the Plan's actuary performed analyses using various costing factors. These analyses were used in determining the Plan changes. The implementation of the Plan changes included meetings with certain employers and a notification to employees of the changes.

7.21 We did not perform an independent review of the impact of the amendments on the Plan's unfunded liability. We have relied on the analysis provided by the Plan's actuary throughout the process.

7.22 We understand the Plan changes are expected to result in full funding of the N.S. LTD Plan in 15 years. Based on an unaudited statement of cash flows prepared by the LTD Office for the nine months ended September 30, 2002, monthly premiums are now sufficient to cover monthly claims. Further, management indicated that advances from the operating account to the investment account will take place in December 2002. It is evident the May 2002 changes to the Plan have already had a positive impact on the financial position of the Plan.

7.23 We were informed that the Plan sponsors have recently requested a review of the impact of one of the Plan changes. Concerns have been raised about the lack of coverage for employees after age 60. The actuary has provided a costing analysis to identify the impact of changes to this provision, including the impact on the 15-year amortization period. The analysis indicates the amortization period would increase. Given the current financial position of the Plan, any decision that would lengthen the time before the Plan is fully funded needs to be carefully considered.

7.24 *Benchmarks* - Trustees have agreed to develop funding strategy benchmarks in an effort to monitor the impact of the May 2002 Plan changes on the unfunded liability. These benchmarks would also provide the starting point for the analysis of any further changes to the Plan. We stress that these benchmarks should be developed in the near future and recommend that a suitable time frame (e.g., annual, semi-annual) be established for monitoring the impact of these changes. We note that the decision to establish benchmarks was based on a recommendation from the Plan's actuary.

Recommendation 7.1

We recommend that benchmarks to be established by the Trustees be included in a plan to monitor the impact of the recent Plan changes.

7.25 *Review of permanent claims* - The LTD Office has undertaken a review of approximately 460 claims on permanent disability status. The purpose of the review was to assess rehabilitation potential for these individuals. Although the review did not yield any change in status for these individuals, it did result in several recommendations. These include a review of all protocols, practices and decision-making criteria used by the claims administrator to ensure effectiveness and consistency with Plan guidelines related to adjudication, case management and rehabilitation. Recommendations from the LTD Office review related to recoveries (primarily from third parties) are discussed in more detail in paragraph 7.46 below.

Leave Management

7.26 As can be seen from Exhibit 7.4, the recent Plan changes are strictly financial in nature. None of the leave management proposals noted in the funding strategy were implemented. The actuary had also noted the need for leave management measures in the following excerpt from a letter summarizing the Plan changes:

> *".... it is imperative for the sponsors to put in place an effective disability prevention and management strategy. The recent history of the plan demonstrated an increase in claiming activity in recent years. It will therefore be necessary to put in an action plan to attempt to minimize new claims and to ensure the intervention and effective return to work strategies are put in place with respect to future claimants. This, if successful, will contribute in a meaningful way to resolving the financial difficulties currently faced by the LTD plan."*

7.27 This concern is also shared by several members of the Board. During the course of the audit, we interviewed Trustees to obtain their views on governance and other matters (see further discussion of this in paragraph 7.32). Several expressed concern that the approved changes to the Plan did not deal with claims administration issues such as rehabilitation. In addition, many noted that changes to the STI policies and practices of the Province, including intervention prior to application for LTD, are critical to the future viability of the Plan.

7.28 *Short-term illness* - A detailed review of STI policies and practices of the Province or other employers was beyond the scope of this audit. However, because of the potential impact of these policies and procedures on LTD claims, we discussed STI benefits with staff at the Public Service Commission (PSC - formerly the Department of Human Resources).

7.29 It is generally recognized in disability management that return-to-work initiatives are more successful in the early stages of disability. In most cases, neither the claims administrator nor the LTD Office are aware of possible LTD claims until the application for LTD benefits takes place. This is usually two to four weeks prior to the expiration of STI benefits which run for 100 work days. Therefore, intervention may not take place until almost five months after the individual has left work.

7.30 PSC indicated it has certain initiatives planned with respect to leave management, including STI. A draft policy entitled *Disability Management Policy* was prepared in 1995 but was not finalized, approved or implemented. In 2001, the PSC prepared a *Proposal for Strategic Management of Short-term Illness and Long-term Disability*. Funding for the proposal could not be secured.

> ***Recommendation 7.2***
>
> *We strongly recommend that the effectiveness of current short-term illness policies and practices, and their impact on LTD claims, be examined by the Public Service Commission. Further, there is a need to integrate and coordinate aspects of these benefit programs to better facilitate back-to-work objectives.*

Governance, Accountability and Performance Management

7.31 We interviewed seven of the eight Board Trustees in early 2002. Our objective was to solicit responses from each of these Trustees on questions related to governance, accountability, and performance management. Unfortunately, we were unable to interview the remaining Trustee prior to her removal as Trustee (and Board Chair) by a Plan sponsor in May 2002.

7.32 *Governance* - We make the following observations about Plan governance.

- The Trust Agreement outlines roles and responsibilities for both the Trustees and the Plan sponsors. Each Trustee we interviewed felt clear about his or her role and responsibilities as a Board member, although none had received any training for the position. They all recognized that changes to the Plan were the responsibility of the Plan sponsors and that Trustee involvement with these changes was in recommending and implementing them.

- Each Trustee was concerned about individual ability to discharge fiduciary responsibility with respect to the Plan. Although the Trust Agreement establishes the powers of the Trustees to do what is necessary "*...to accomplish the objectives of the Plan and enable the employees to obtain benefits under the Plan in the most efficient and economical manner*", the Plan sponsors determine the nature and extent of benefits provided under the Plan and the contribution rates. This may limit the ability of the Trustees to effectively meet their responsibility in this regard.

- All Trustees expressed frustration with the time it has taken to make changes to the Plan. As noted previously, the Plan has been in financial difficulty since shortly after its inception in 1985. A review of correspondence maintained by a former Chair of the Board indicates that the Plan sponsors were informed of the financial situation of the Plan in 1993, and documentation supports that they were reminded of this in several of the following years.

- There is a difference of opinion between the Union and Management Trustees with respect to tendering for the services of the claims administrator. The matter had to be referred to the Plan sponsors for resolution in accordance with the Trust Agreement.

7.33 The issue of governance has been raised at the Board level, and it has been suggested that expertise be sought regarding the roles and responsibilities of a Trustee. We strongly support this initiative.

> ***Recommendation 7.3***
>
> *We recommend that an overall review of the governance structure and arrangements for the Plan be undertaken. This review should include a discussion of alternatives to the present arrangements to ensure the resulting Board structure addresses the concerns expressed by the Trustees surrounding fiduciary responsibility to the beneficiaries of the Plan, i.e., current contributors and claimants.*

7.34 *Accountability and performance management* - Our audit plan included several criteria related to accountability and performance management, and our assessment of these is noted in Exhibit 7.1. In general, the Trustees felt they received adequate information to assess the financial condition and performance of the Plan, and that information provided to them by the LTD Office prior to Board meetings was adequate and timely. We noted that reports from service providers were given to the Board as required. The reports provided by the investment manager, investment trustee, claims administrator and actuary appear to provide adequate financial and other information to assess the Plan's performance. An exception is the need for more detailed information on rehabilitation, as further described in paragraph 7.43 below.

7.35 The Trustees are required to prepare an annual report pursuant to Section 4.7(c) of the Trust Agreement. We noted that this has been prepared for the Plan sponsors on a regular basis. An annual report was prepared for the year ended December 31, 2000 and made available to various Plan participants through departments' human resource functions. This distribution was part of an overall communication strategy being implemented for the Plan. The annual report provided information to stakeholders - employees and employers - on the financial condition of the Plan and the planning and operational strategies being pursued to ensure its viability. An annual report has recently been prepared for the year ended December 31, 2001.

Recommendation 7.4

We recommend that future annual reports be prepared on a timely basis and clearly indicate the impact the recent changes have had in addressing the unfunded liability of the Plan.

Claims Administration, Appeals and Rehabilitation

7.36 *Claims incidence* - Exhibit 7.5 provides background information on the 757 active claims as at September 30, 2002. We note that the incidence of the two most significant types of claims increased marginally from 49.0% of total claims in 1990 to the present level of 51.8%. In addition, Exhibit 7.6 provides an analysis of claims activity during the nine months ended September 30, 2002.

7.37 *Service standards* - Claims administration service standards were approved by the Board of Trustees in April 2001. The standards address the following areas of service delivery: client contact/assistance; claims and case management; vocational rehabilitation; contact with employers and service providers; and appeal process.

7.38 Several of the standards include a specific time frame for completion of related tasks. These time frames provide a framework against which to measure performance and have been incorporated into a document accompanying the service standards titled *Performance Evaluation of Service Standards*. It is the Board's intention to ensure the service standards and related performance evaluation are integrated into any contract negotiations with the current (or subsequent) claims administrator. We commend the Board in its efforts to increase accountability in the claims administration function. This evaluation process will also serve to establish whether value-for-money is being obtained for these services.

7.39 *Audit of beneficiary files* - We did not examine individual benefit recipients' files during the course of this audit. However, we did enquire as to whether the Board undertook regular reviews of beneficiary files. This had only been done in 1996.

7.40 The new service contract includes a provision for the inspection of documents related to the provision of claims administration services.

Recommendation 7.5

We recommend that the Board develop a schedule for the periodic review of files (likely on a sample basis) as part of the overall evaluation of the claims administration function .

7.41 *Rehabilitation guidelines* - Rehabilitation guidelines were approved by the Board in 1998. We note that these guidelines provide a framework for rehabilitation efforts, and are referred to in the service standards. The standards note that participation in prescribed rehabilitation initiatives is mandatory. We are not sure of the extent to which these guidelines have been implemented as we did not review individual claim files.

7.42 Information provided by the claims administrator indicates 110 claimants were referred for rehabilitation during the nine months ended September 30, 2002. This compares to 123 referrals to September 30, 2001. The claims administrator could not provide information to indicate the percentage of active claims (excluding those defined as permanent claims) involved in rehabilitation activities at September 30, 2002. This information is important in order to ascertain whether the service standards relating to rehabilitation are being met. We understand staff of the LTD Office is working with the claims administrator to obtain this information.

Other Issues

7.43 *Procurement* - The N.S. LTD Plan uses external service providers for the following functions:

- actuarial;
- legal;
- investment management;
- investment trustee; and
- claims administration.

7.44 We reviewed the arrangements with each of the service providers to the Plan. As noted in our assessment of the audit criteria related to procurement in Exhibit 7.1, none of the current arrangements with the service providers we examined during the course of this audit were procured through tender. These services totaled about $.965 million for the year ended December 31, 2001.

Recommendation 7.6

We recommend that the Trustees perform an analysis to determine whether services procured from external service providers result in due regard for economy and efficiency. If it is determined that these arrangements continue to be sole-sourced, written documentation justifying this decision should be noted in the Board minutes.

7.45 *Recoveries* - The Plan is entitled to recoveries from several sources:

- Canada Pension Plan (CPP);
- Employment Insurance (EI);
- Workers' Compensation Board;
- subrogation; and
- offset of benefits by income earned during rehabilitation.

7.46 We discussed the systems and controls in place to ensure the Plan is receiving the recoveries to which it is entitled. An analysis had been undertaken by LTD Office staff during the review of permanent claims as noted in paragraph 7.26 above. Recommendations resulting from this review include obtaining signed disclaimers from benefit recipients asserting that they are not in receipt of any other income which should be offset against LTD benefits. In addition, there should be a process in place to ensure re-application for CPP benefits if there is a change in the condition of the LTD recipient.

CONCLUDING REMARKS

7.47 The N.S. LTD Plan Trust Fund has, and will continue to face, significant challenges including reducing its unfunded liability. For too long, the declining financial position of the Plan was not addressed, and one can only conclude that the overall governance and accountability functions in the past failed to protect the interest of the beneficiaries on a timely basis.

7.48 The existing governance arrangements for the Plan include, by design, conflicting interests. The members of the Board of Trustees share the fiduciary responsibilities for the Plan with the sponsors. However, only the Plan sponsors have the authority for decisions most relevant to the finances and funding of the Plan. Historically, it has taken the Trustees and sponsors too long to make decisions and take action on matters with significant financial or funding consequences. As a result, current contributors to the Plan, including the public purse, are now - and will be for some time - paying increased premiums to offset the poor performance of the Fund in the past.

7.49 Recent changes to the Plan, which are aimed toward a fully-funded position in 15 years, are a significant step in maintaining a viable Fund. However, leave management policies and procedures within the government and its related entities require review in an effort to control the rate of claims incidence for the Plan.

7.50 In order to attract and retain qualified employees at all levels, an organization like the government of Nova Scotia needs to offer a reasonably comprehensive suite of benefits in addition to basic salaries and wages. Access to a reasonably priced and reliable disability benefit is one element of a comprehensive benefits program. The government's existing program offered through the N.S. LTD Plan Trust Fund has been and is still at significant risk and must be monitored closely. The Board of Trustees noted in its response to this Chapter that they have taken, or are planning to take, action toward implementing the recommendations we have made.

Exhibit 7.1

NOVA SCOTIA LONG TERM DISABILITY PLAN TRUST FUND
AUDIT CRITERIA ASSESSMENT

Criteria	Assessment	Key Controls and Other Considerations	Key Suggestions
SECTION A - GOVERNANCE, ACCOUNTABILITY AND PERFORMANCE MANAGEMENT Objectives - To assess the framework for governance, accountability, and performance management of the N.S. LTD Plan Trust Fund. To assess the N.S. LTD Plan Trust Fund's accountability relationships, including those between: - the Board of Trustees and Plan sponsors; - the Board of Trustees and Plan participants; and - the Plan management and the Board of Trustees. To determine how the performance of service providers to the Plan is monitored.			
There should be regular reporting of the Plan's financial position and operating results between and among the Board of Trustees, the Plan's sponsors and participants, and service providers to the Plan.	Partially Met	There is regular reporting to the Board of Trustees, and reports to the Plan sponsors are made periodically. Service providers are provided with relevant information as needed.	An annual report, including the financial position of the Plan, should be made available to Plan participants.
There should be a system in place to ensure reporting requirements specified in contracts or agreements are met.	Met	Reports from service providers are included on the agenda of each Board meeting.	
Information provided should be sufficient to allow for informed decision making with respect to the Plan's future, and should also provide adequate detail to monitor the Plan's performance.	Met	Information on the Plan's financial situation is available on a monthly basis and allows for regular monitoring of its performance.	
There should be Terms of Reference for Trustees and Chair of the Board which detail roles and responsibilities.	Met	No specific Terms of Reference, but roles and responsibilities are documented in the Trust Agreement.	
Objectives for the Plan should be established and communicated, and plans should be developed and targets identified to meet these objectives.	Met	The Plan was established as an income replacement benefits program for eligible participants with disabilities. Objectives for the continued operation of the Plan have been established through targets related to its financial and claims performance.	
Performance against established targets should be measured and reported.	Not met		A system for monitoring financial and claims performance needs to be established.

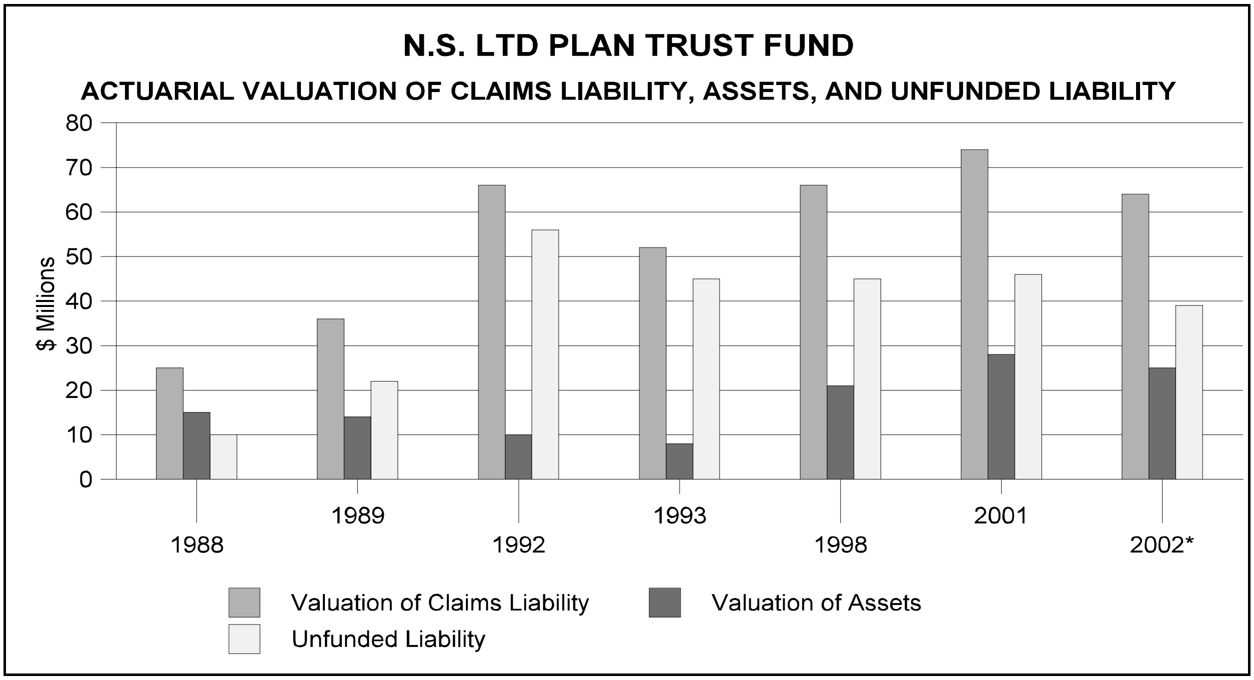
Exhibit 7.1 (Cont'd)

Criteria	Assessment	Key Controls and Other Considerations	Key Suggestions
SECTION B - FUNDING STRATEGY Objectives - To gather information on the performance of the Plan since its inception, including information with respect to additional participants entering the Plan. To review the Board's plans for addressing the unfunded liability.			
There should be documentation to support decisions made with respect to the direction of the Plan, including the admission of new participants to the Plan, premium and benefit rates, and investment policies.	Met	Recent Plan changes have been supported with extensive analysis by the Plan's actuary.	
Appropriate actuarial valuations should be performed when new groups are to be admitted to the Plan.	Partially Met	Several groups joined the Plan without actuarial valuations in the mid-1990s.	The Board of Trustees determined that valuations are now required for new entrants.
There should be an approved funding strategy to address the deficiencies of the Plan.	Met	The funding strategy was approved by the Board of Trustees in December 2000.	
The implementation of the funding strategy should be monitored and its progress compared with an approved schedule.	Not met		Not all aspects of the funding strategy were implemented. The Board of Trustees is developing a plan to monitor and evaluate the effectiveness of the approved changes. Other aspects of the strategy need to be re-evaluated.
SECTION C - CLAIMS ADMINISTRATION AND APPEALS Objectives - To assess the control processes for monitoring the claims administration and appeal functions. To determine how the economy and efficiency of the claims administration and appeal services are assessed.			
There should be approved standards for the provision of claims administration and appeal services.	Partially Met	The Board of Trustees has approved service standards for claims administration and appeals, although these have not been implemented. Standards presently used by the service provider for claims administration and appeal services have been developed over time.	Standards for these services should be implemented. The Board of Trustees has included these in the contract for claims administration services which is currently under negotiation.
There should be a process for monitoring and reporting performance against service standards.	Not met	A system for monitoring and evaluating these services is not in place.	The proposed contract now includes benchmarks for evaluating claims administration services. Once contract negotiations are completed, a system for monitoring and evaluating should be established.
The contract for claims administration and appeal services should be awarded in accordance with procurement policies and procedures.	Not met	The current contract for claims administration services was not awarded as a result of a tendering process.	There should be documentation to support the decision not to tender, and to indicate that these services provide due regard for economy and efficiency.

Exhibit 7.1 (Cont'd)

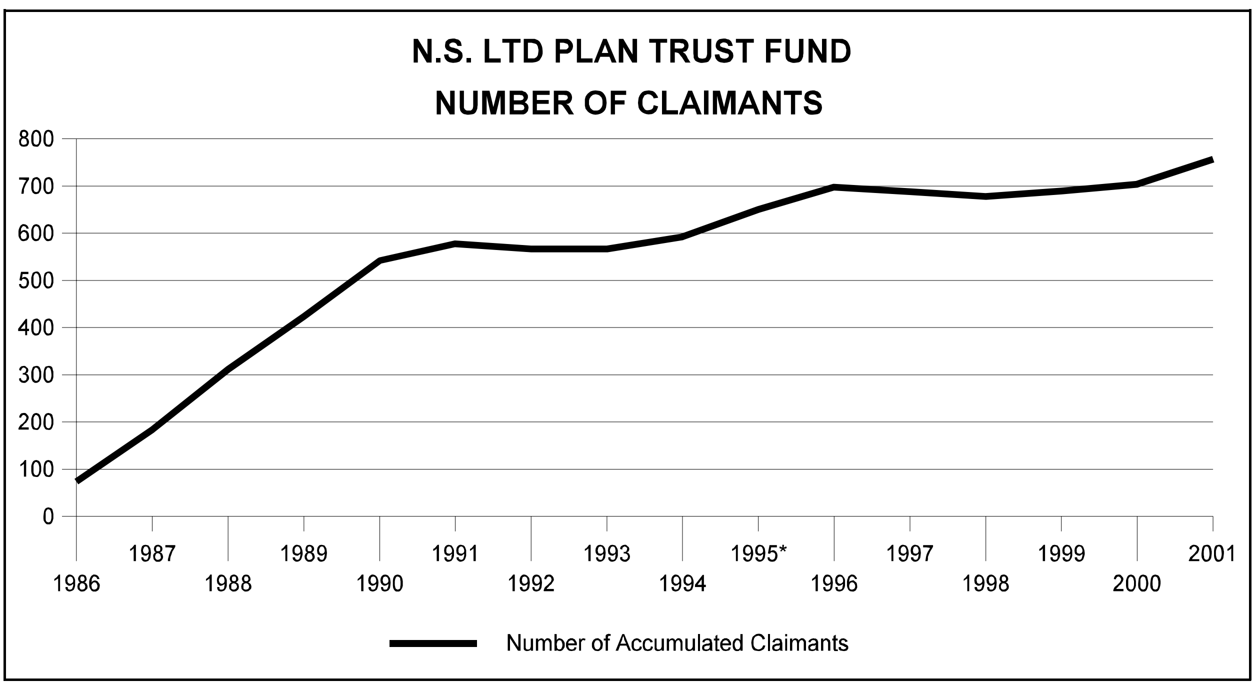
Criteria	Assessment	Key Controls and Other Considerations	Key Suggestions
SECTION D - REHABILITATION SERVICES Objectives - To assess the control process for monitoring rehabilitation services. To determine how the economy and efficiency of rehabilitation services are assessed.			
Standards for rehabilitation services should be established and approved and include time frames for intervention.	Partially met	Rehabilitation guidelines were approved by the Board in 1998. There is no formal agreement with the service provider specifying the use of these in rehabilitation services, and consequently, not all aspects of these guidelines have been implemented.	Approved guidelines should be implemented fully. The Board of Trustees has included these guidelines as part of the proposed contract for claims administration services. (These services are currently under negotiation.)
There should be a system for monitoring and reporting performance against approved standards for rehabilitation services.	Not met	The approved guidelines include some benchmarks for performance evaluation, but as the guidelines have not been implemented fully, there is no system for monitoring and reporting performance in the area of rehabilitation.	The Board of Trustees has approved service standards. These standards include benchmarks against which rehabilitation services are to be evaluated on a regular basis. The standards form part of the contract for claims administration services.
The contract for rehabilitation services should be awarded in accordance with procurement policies and procedures.	Not met	Claims administration services are not tendered.	There should be documentation to support the decision not to tender, and to indicate that these services provide due regard for economy and efficiency.
SECTION E - INVESTMENT MANAGEMENT Objectives - To assess the control processes over the performance of investment management functions. To determine if investment management services are provided with due regard for economy and efficiency.			
There should be an investment strategy for the Plan which is based on analysis and consideration of an appropriate level of risk.	Met	There is an investment policy for the LTD Plan Trust Fund. The rate of return established for the Plan is comparable to the rate used for other Provincial benefits plans.	An analysis of the rate of return should be performed to ensure the unfunded liability of the Plan has been considered fully.
Investment results should be compared with selected benchmarks on a periodic basis.	Met	The investment manager provides information to compare the Plan results with those of selected indices on a regular basis.	
The contract for investment services should be awarded in accordance with procurement policies and procedures.	Not met	The services provided by the investment manager are not tendered.	There should be documentation to support the decision not to tender, and to indicate that these services provide due regard for economy and efficiency.
SECTION F - RECOVERIES Objective - To assess the system for ensuring the LTD Plan is recovering all amounts to which it is entitled.			
There should be a system to ensure amounts to be received from third parties are complete and recovered on a timely basis.	Met	CPP and other possible recoveries are identified during the application process.	Beneficiaries should be asked to update information related to recoveries on a periodic basis. The need for this has been identified by the LTD Office.

Exhibit 7.2



** as of June 1, 2002*

Exhibit 7.3



**estimated*

Exhibit 7.4

N.S. LTD PLAN TRUST FUND
SUMMARY OF APPROVED PLAN CHANGES

The following changes were effective May 1, 2002:

- The definition of disability, which affects the own occupation time-frame, was changed from 30 months to 24 months.
- Eligibility criteria for continued coverage after 24 months was reduced from 80% to 75% of pre-disability earnings.
- Premiums increased with employers and employees continuing to cost share on a 50/50 basis.
- The cap on benefits was raised. Therefore, full premiums must be paid for employees earning up to $120,000 per year.
- New LTD claimants will receive benefits equal to 65% of their salary, to a maximum benefit of $3,000 bi-weekly.
- Premium contributions and coverage will end 100 days prior to an employee reaching age 60, or after accumulating 35 years of pensionable service, whichever comes first.
- Annual indexing of benefits will be determined based on the financial viability of the Plan.

Exhibit 7.5

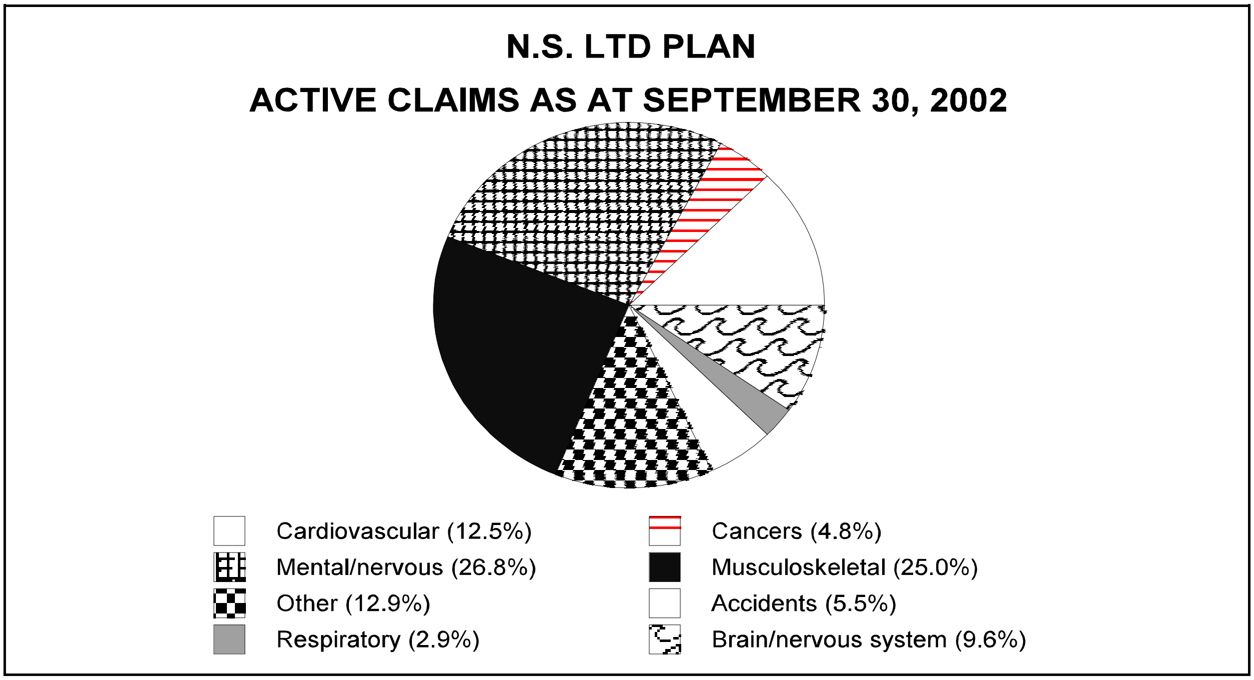


Exhibit 7.6