

Selected Financial Information and Other Matters

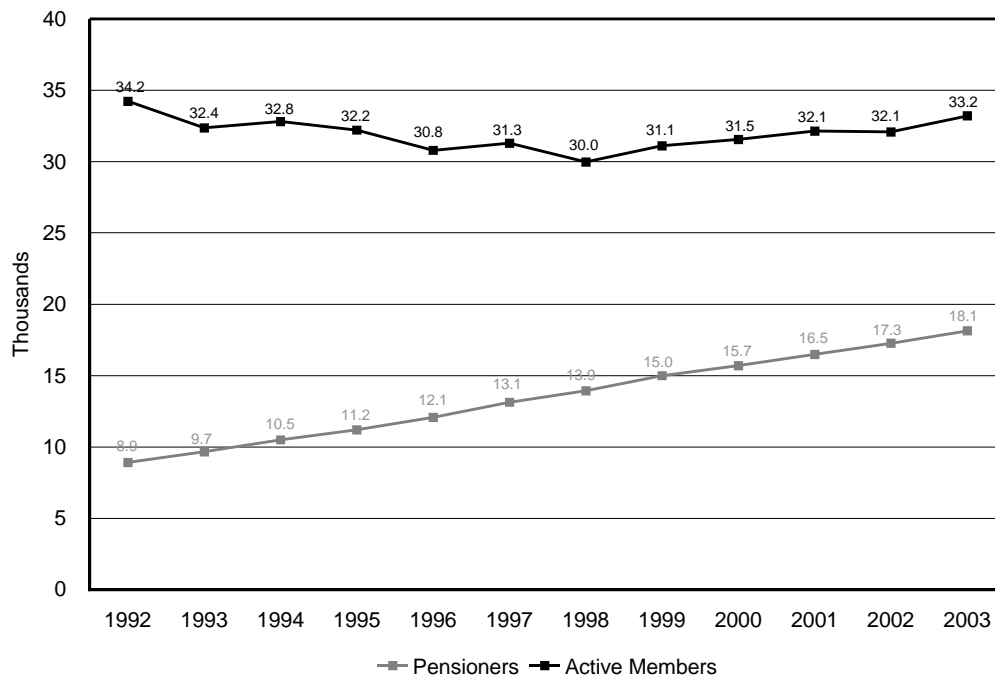
5.1 Retirement Benefits - Pensions

Prior to 1967, public service salaries and pension benefits were paid under the authority of the *Civil Service Act*. Under that legislation there were no employee or employer contributions to a pension plan and pension benefits were paid out of the Consolidated Revenue Fund. In 1967, legislation was enacted which required that employees contribute to a pension plan. Employees' pension premiums were paid into the Consolidated Revenue Fund and pension benefits continued to be paid out of it.

In 1981, legislation was enacted which created the Province of Newfoundland and Labrador Pooled Pension Fund and required that employee and employer pension premium contributions be paid into the Fund. Subsequent to the establishment of the Fund, pension benefits were paid by the Fund irrespective of whether the employee had contributed pension premiums to it. Figure 1 provides historical data for the Fund relating to pensioners and active members for the past 12 years.

Figure 1

Province of Newfoundland and Labrador Pooled Pension Fund Population History: Pensioners and Active Members Years Ended 31 December (000's)



At 31 December 2003, the Province of Newfoundland and Labrador Pooled Pension Fund was comprised of four pension plans: the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services

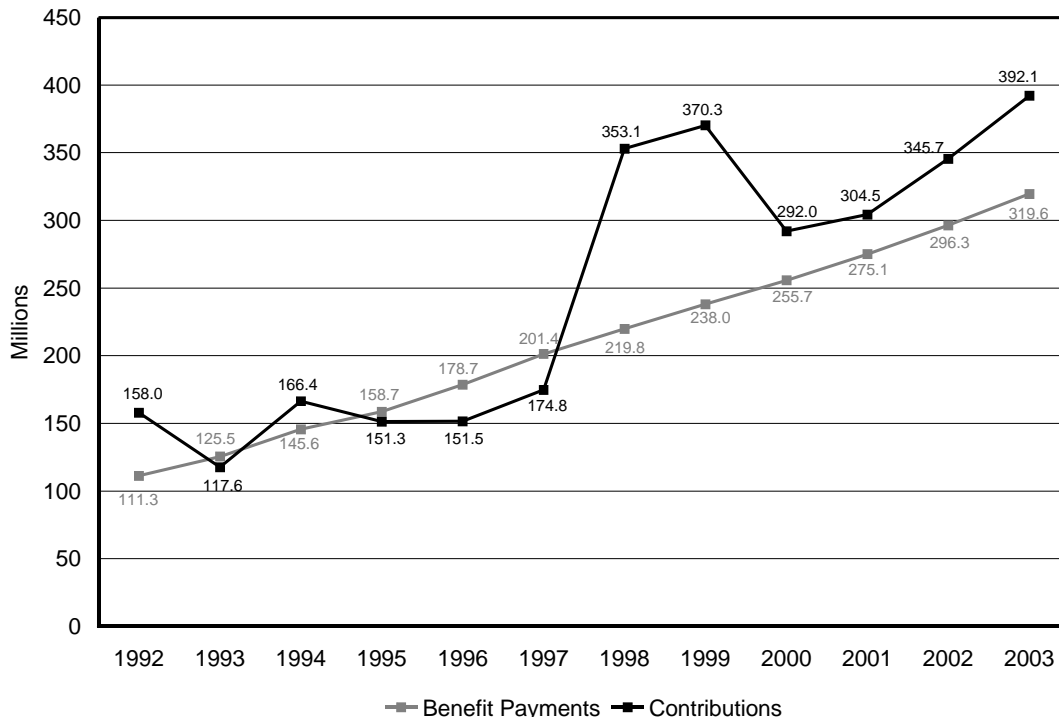
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Pension Plan, and the Members of the House of Assembly Pension Plan. All employee and employer contributions are deposited into the Fund and pension benefits to plan members and other pension payments are made from it.

Our review disclosed that for the year ended 31 December 2003, approximately 33,200 employees, Members of the House of Assembly, and the employer paid pension premiums totalling \$392.1 million into the Pension Fund under the four pension plans. Premiums of \$392.1 million include a \$163.5 million contribution by Government in excess of matching provisions. During the same period, the Fund provided benefits totalling \$319.6 million to approximately 18,100 retirees. Figure 2 provides historical data for the Fund relating to pension benefits paid and pension contributions received for the past 12 years.

Figure 2

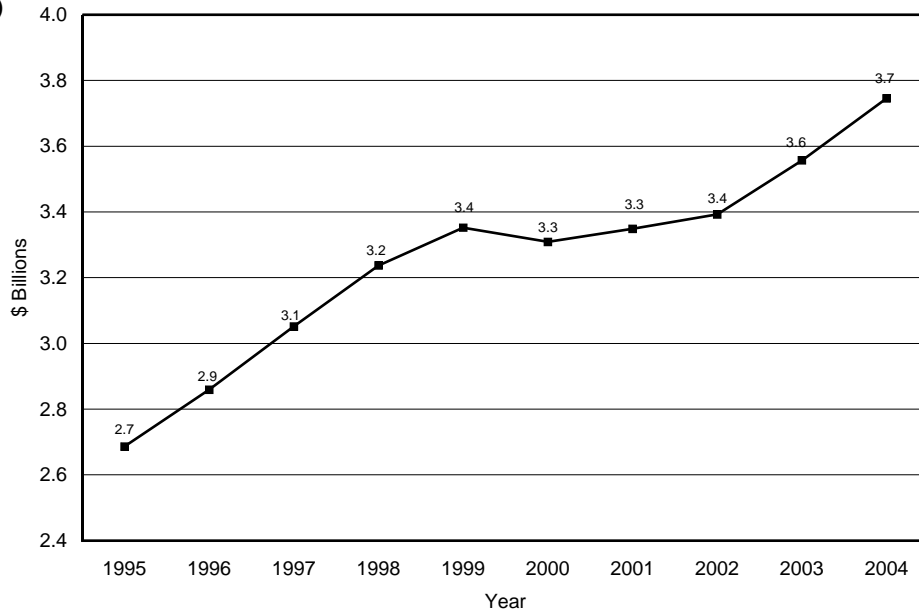
Province of Newfoundland and Labrador Pooled Pension Fund Pension Benefit Payments and Contributions Years Ended 31 December (\$ Millions)



The unfunded pension liability represents a significant debt for Government which at 31 March 2004 was \$3.75 billion. Information on the unfunded liability as at 31 March for the years ended 1995 to 2004 is outlined in Figure 3.

Figure 3

**Consolidated Summary Financial Statements
Unfunded Pension Liability
As at 31 March
(\$ Billions)**



Commencing during the 1997-98 fiscal year, Government started to make special payments to the Public Service Pension Plan to address the unfunded liability. Government contributed \$30 million in each of 1997-98 and 1998-99, \$40 million in each of 1999-2000, 2000-01 and 2001-02, \$45 million in 2002-03, and \$60 million in 2003-04. Government's contribution will continue at \$60 million until the unfunded liability is extinguished. In addition, Government increased the contribution rate for employees and employers by 1.0%, which was in effect as of January 2000.

During 1998-99, Government negotiated a collective agreement with the Newfoundland and Labrador Teachers' Association which included provisions to address the unfunded liability of the Teachers' Pension Plan. In accordance with the agreement, Government will contribute up to \$815 million to the Plan over a 14 year period. Government paid \$166 million towards this commitment in 1998-99 and 1999-00 and paid \$76 million in 2000-01, 2001-02, 2002-03 and 2003-04. Additional annual payments are to be made in instalments of \$76 million until the remaining balance of an initial obligation of \$815 million, plus interest, has been paid.

As at 31 March 2004, the unfunded liability for the Uniformed Services Pension Plan was \$180.2 million and was estimated to increase to \$339 million by 2030. In 2001-02, the Province agreed to a five-year

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commitment to provide an annual payment of \$20 million to the Uniformed Services Pension Plan.

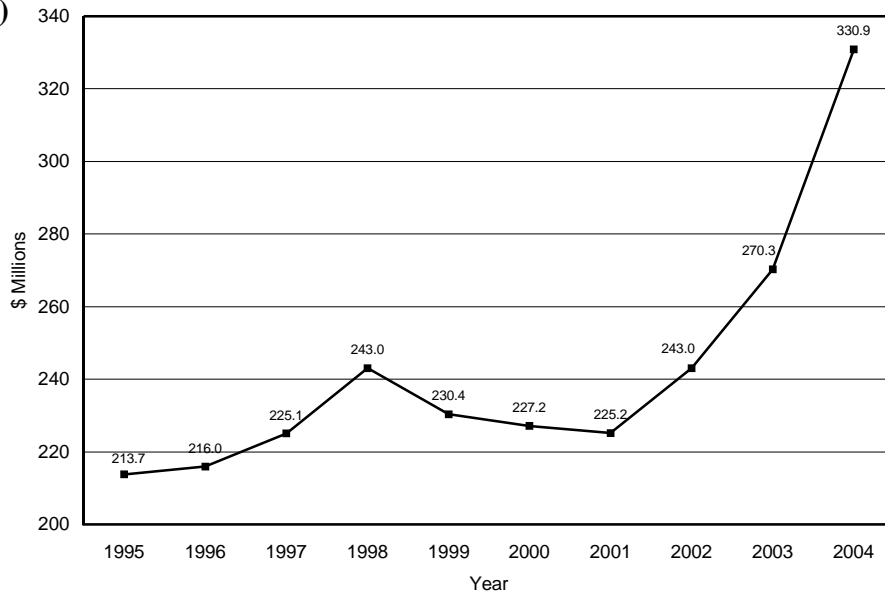
As at 31 March 2004, the unfunded liability for the Members of the House of Assembly Pension Plan was \$51.1 million and was estimated to increase to \$94 million by 2033. In 2001-02, the Province agreed to a five-year commitment to provide an annual payment of \$7.5 million to the Members of the House of Assembly Pension Plan. In 2003-04, Government decided to cease these annual payments as a result of requirements of the *Income Tax Act*.

During 2003-04, pensions of certain Provincial Court Judges were moved from the Public Service Pension Plan to a new Provincial Court Judges' Pension Plan. As at 31 March 2004 the plan had an estimated unfunded liability of \$3.0 million.

While Government has taken action to address the unfunded liability of its pension plans, the net unfunded liability, including unamortized experience gains and losses, continues to increase. As at 31 March 2004 the unfunded pension liability was \$3.75 billion, an increase of \$188.7 million from the balance of \$3.56 billion as at 31 March 2003. The liability increased even though Government made special payments totaling \$163.5 million. One of the main reasons for the increase in the unfunded liability was the significant interest costs associated with the unfunded pension liability. The interest costs relating to the pension plans each year since 1995 are outlined in Figure 4.

Figure 4

Consolidated Summary Financial Statements Interest Costs on the Unfunded Pension Liability Years Ended 31 March (\$ Millions)



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As Figure 4 indicates, there has been a significant increase in interest costs associated with the Province's unfunded pension liability. In 1995, interest costs amounted to \$213.7 million while in 2004, interest costs were \$330.9 million, an increase of \$117.1 million or 55%. One of the most significant factors contributing to the increase in interest costs is the correlation between interest costs and the balance of the unfunded pension liability. For example, in 1995, the unfunded pension liability was \$2.69 billion, while in 2004, the unfunded pension liability was \$3.75 billion, an increase of \$1.06 billion or 39%.

Recommendation

Government should continue its efforts to address its unfunded pension liability.

5.2 Retirement Benefits - Other Than Pensions

Active and retired public sector employees are eligible to participate in group health and group life insurance plans. Plans for active and retired employees, other than teachers, are managed by Government, with plans for active and retired teachers being managed by the Newfoundland and Labrador Teachers Association.

Figure 5 provides information regarding the number of active and retired employees covered by these plans as at 31 March 2003. This information was based on an actuarial valuation undertaken during 2003-04 to determine the Province's liability with respect to group health and group life insurance retirement benefits.