
Selected Financial Information and Other Matters

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.

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Figure 5

**Province of Newfoundland and Labrador
Group Health and Group Life Insurance
Participant Population
31 March 2003**

	Active Members	Pensioners and Survivors	Total
Public Sector (other than Teachers)	26,035	10,825	36,860
Teachers	6,632	6,756	13,388
Total	32,667	17,581	50,248

Source: Actuarial valuation

Active and retired employees pay premiums for basic and voluntary coverage under the group health and group life insurance plans, with Government matching the basic coverage portion of these premiums. Total payments (including active/retired employee premiums and Government's matching portion) to the plan administrators for the year ended 31 March 2004 were approximately \$52 million for active and retired employees, other than teachers, and approximately \$20 million for active and retired teachers.

Obligations for retirement benefits result from a promise by Government to provide benefits to employees on retirement in return for their current services. Extended health care and life insurance benefits are a form of compensation offered for current services rendered by employees and accrue over the years employees work. The fundamental accounting task is to determine the amount of the total obligation for future retirement benefits and to determine the cost of future benefits for each year of employee service (current service cost).

Prior to 2003-04, Government did not reflect either the liability or the total current service cost for group health and group life insurance retirement benefits in the Province's financial statements - the only costs recognized were Government's payments made to the plan administrators.

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In May 2002, the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants introduced accounting standards requiring that governments record a liability and expense in their financial statements for these retirement benefits. While these standards were to be implemented for years beginning after January 2004 (i.e. for the 2004-05 year), Government decided to implement the new standards for 2003-04.

Based on the results of the actuarial review undertaken during 2003-04, a net liability of \$1.058 billion (2003 - \$985 million) was recognized in the Consolidated Statement of Financial Position relating to group health and group life insurance retirement benefits.

Figure 6 provides information regarding the net liability as extrapolated to 31 March 2009.

Figure 6

**Province of Newfoundland and Labrador
Group Health and Group Life Insurance
Net Liability
As at 31 March
(\$ Billions)**

	2003	2004	2005	2006	2007	2008	2009
Accrued Benefit Obligation	0.985	1.197	1.279	1.365	1.455	1.548	1.645
Unamortized Experience Losses	-	0.139	0.130	0.120	0.111	0.102	0.093
Net Liability	0.985	1.058	1.149	1.245	1.344	1.446	1.552

Source: Actuarial valuation

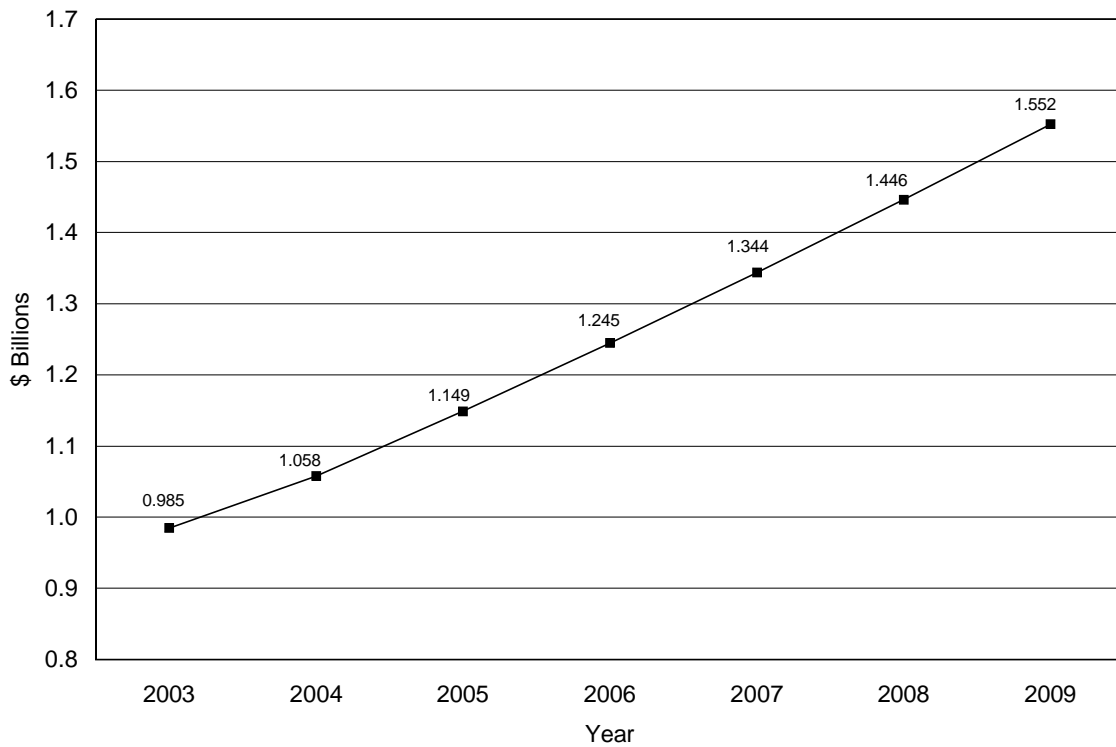
The liability for retirement benefits other than pensions has added to the already considerable debt load of the Province and, as Figure 6 shows, is expected to increase in each of the next five years. By 2009 the net liability is expected to total \$1.552 billion, an increase of \$567 million or 58% over 2003, if action is not taken to address it.

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Figure 7 shows graphically the steady increase in the net liability.

Figure 7

Group Health and Group Life Insurance Net Liability As at 31 March (\$ Billions)



Recommendation

Government should carefully manage its liability relating to group health and group life insurance benefits.