

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 2005.

Figure 5

**Province of Newfoundland and Labrador
Group Health and Group Life Insurance
Participant Population
31 March 2005**

| | Active Members | Pensioners and Survivors | Total |
|-------------------------------------|-----------------------|---------------------------------|---------------|
| Public Sector (other than Teachers) | 34,412 | 9,609 | 44,021 |
| Teachers | 6,283 | 5,213 | 11,496 |
| Total | 40,695 | 14,822 | 55,517 |

Source: Insurance Division, Executive Council

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 2005 were approximately \$53 million for active and retired employees, other than teachers, and approximately \$19 million for active and retired teachers.

Obligations for retirement benefits result from a commitment 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).

Comments on Selected Financial Information and Other Matters

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.

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.

A net liability as at 31 March 2005 of \$1.159 billion (2004 - \$1.067 million) is 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 | 1.206 | 1.289 | 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 | 1.067 | 1.159 | 1.245 | 1.344 | 1.446 | 1.552 |

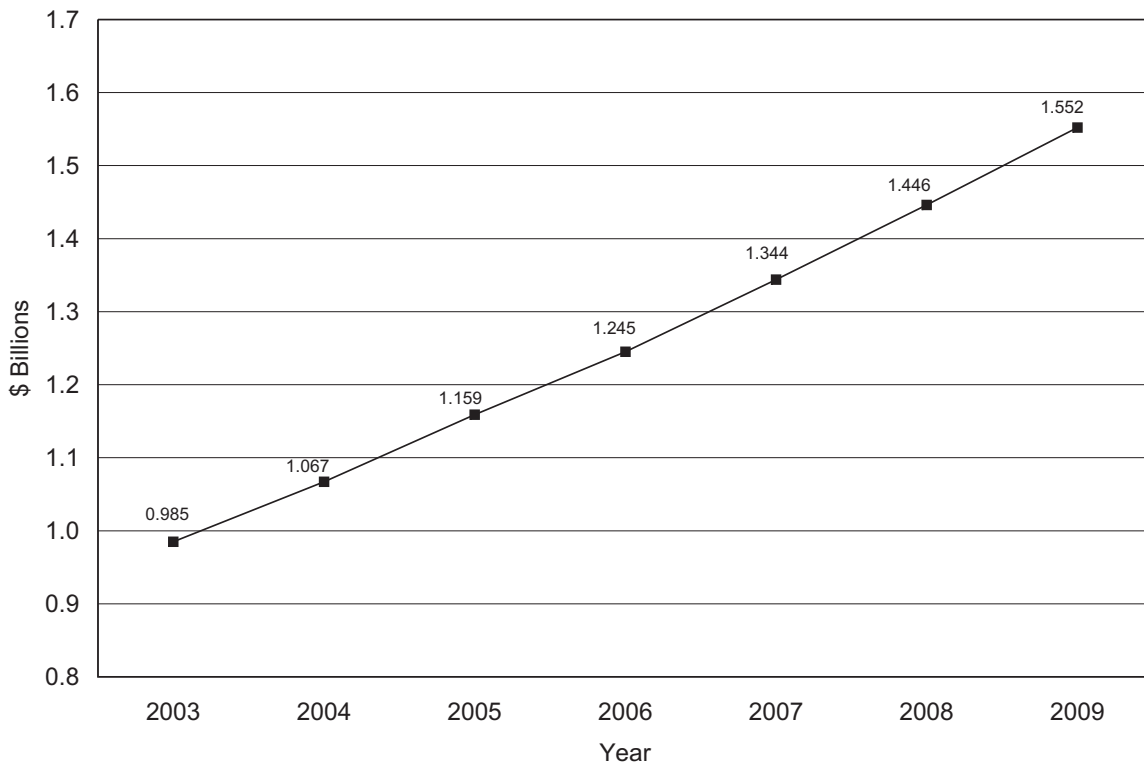
Source: Public Accounts and Actuarial Valuation

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 four 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.

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.