

Comments on Selected Financial Information

4.1 Retirement Benefits - Pensions

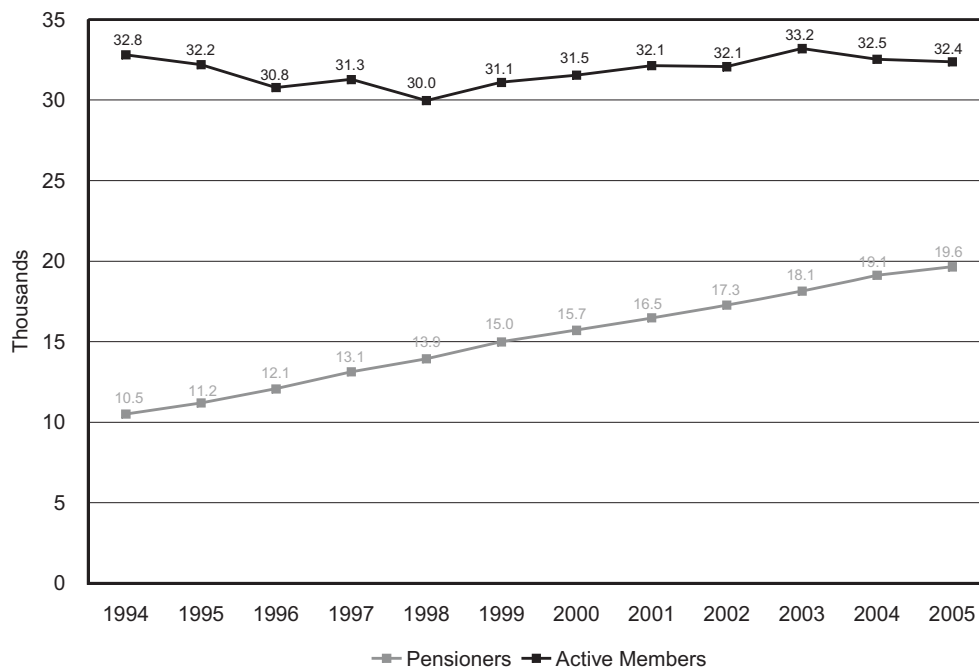
Pensions Administered under the Newfoundland and Labrador Pooled Pension Fund

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)



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As at 31 December 2005, the Province of Newfoundland and Labrador Pooled Pension Fund was comprised of the following five pension plans:

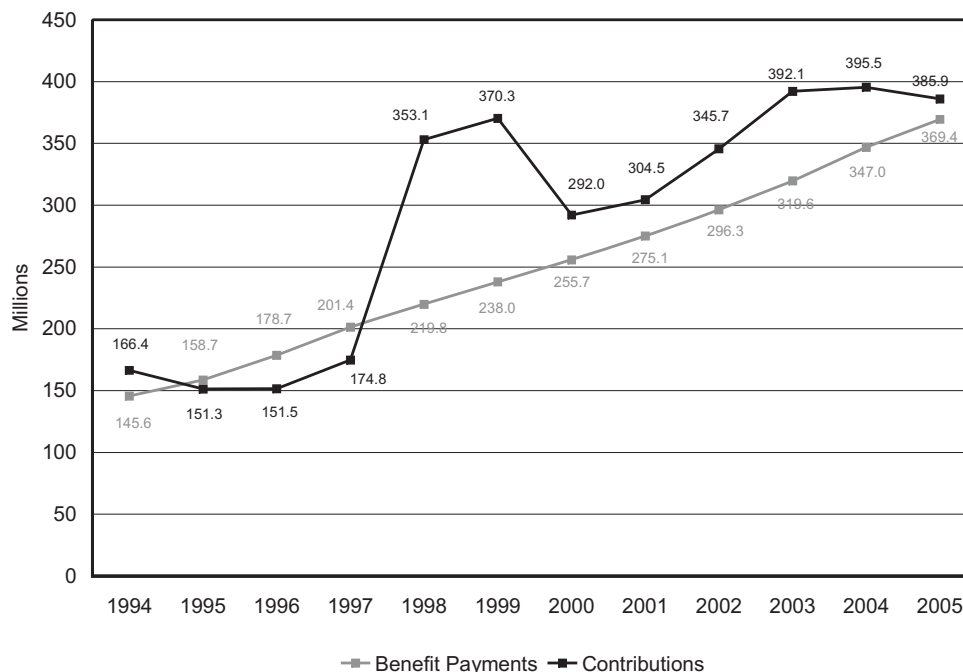
- Public Service Pension Plan;
- Teachers' Pension Plan;
- Uniformed Services Pension Plan;
- Members of the House of Assembly Pension Plan; and
- Provincial Court Judges' Pension Plan.

All employee and employer contributions are deposited into the Fund and pension benefits to plan members and other pension payments are made from it.

For the year ended 31 December 2005, approximately 32,400 employees, Members of the House of Assembly, and the employer paid pension premiums totalling \$385.9 million into the Pension Fund under the five pension plans. During the same period, the Fund provided benefits totalling \$369.4 million to approximately 19,600 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)



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Memorial University of Newfoundland Pension Plan

Commencing with the year ended 31 March 2006, the Province included Memorial University of Newfoundland (MUN) in its reporting entity. Therefore, the consolidated summary financial statements include, for the first time, financial information relating to the MUN pension plan.

MUN's plan is a defined benefit pension plan for its full-time employees and is administered separately from the plans administered under the Province of Newfoundland and Labrador Pooled Pension Fund.

As at 31 March 2006, the MUN plan had 3,055 active participants and 1,299 pensioners. For the year ended 31 March 2006, the employer and employees paid pension premiums totalling approximately \$34 million, and provided benefits to pensioners of approximately \$27 million.

Unfunded Pension Liability

The unfunded pension liability as at 31 March 2006, including the unfunded liability of the MUN plan of \$18.7 million, totalled \$2.201 billion. This is a decrease of \$1.733 billion from the balance of \$3.934 billion as at 31 March 2005. The main reason for the decrease in the unfunded pension liability was the decision by Government to use \$1.953 billion of the proceeds from the Atlantic Accord (2005) agreement to reduce the unfunded pension liability of the Teachers' Pension Plan.

The \$2.201 billion unfunded pension liability continues to represent a significant debt for Government. Information on the overall unfunded pension liability from 1997 to 2006 is outlined in Figure 3.

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Figure 3

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

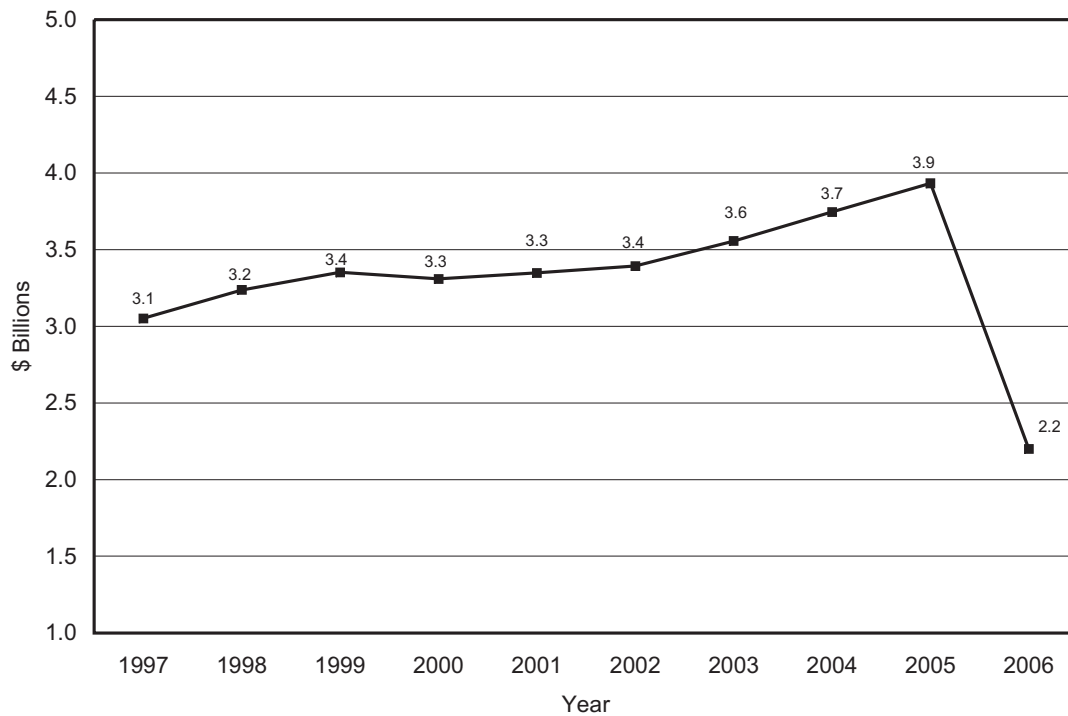


Figure 4 provides details of the Province's \$2.201 billion unfunded pension liability as at 31 March 2006.

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Figure 4

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

Plan	Unfunded Liability 2005	Contributions Employees	Contributions Employer	Special Payments	Current Service Costs	Current Amortization	Interest Expense	Other Adjustments	Unfunded Liability 2006
PSPP	1,671.1	(78.0)	(78.4)	(60.0)	129.4	28.3	142.9	.3	1,755.6
TPP	2,043.6	(36.2)	(33.7)	(2,019.2*)	53.6	33.0	169.0	(10.0)	200.1
USPP	175.4	(2.3)	(2.3)	(20.0)	4.8	1.1	13.9	-	170.6
MHAPP	40.3	(.4)	(6.0)	-	2.0	2.5	3.3	10.4	52.1
PCJPP	3.2	(.2)	(.2)	-	.8	-	.2	.2	4.0
MUNPP	-	(13.5)	(14.3)	(7.0)	25.3	6.3	6.1	15.8	18.7
	3,933.6	(130.6)	(134.9)	(2,106.2)	215.9	71.2	335.4	16.7	2,201.1

* Comprised of \$1.953 billion Atlantic Accord (2005) money, special payment of \$56 million and a transfer of \$10 million from the Members of the House of Assembly Pension Plan.

As Figure 4 shows, although the total unfunded pension liability decreased from 2005, mainly as a result of a one-time special contribution of \$1.953 billion from the Atlantic Accord (2005) money to the Teachers' Pension Plan, the unfunded liability increased by a total of \$97.1 million in three pension plans - the Public Service Pension Plan (\$84.5 million), the Members of the House of Assembly Pension Plan (\$11.8 million) and the Provincial Court Judges' Pension Plan (\$800,000).

Special Payments

(a) Public Service Pension Plan

Commencing during the 1998 fiscal year, Government started to make special payments to the Public Service Pension Plan to address the Plan's unfunded liability. Government contributed \$30 million in each of the fiscal years 1998 and 1999, \$40 million in each of 2000, 2001 and 2002, \$45 million in 2003, and \$60 million in each of 2004, 2005 and 2006. Government has indicated that its contribution will continue at \$60 million until the unfunded liability is extinguished. As at 31 March 2006, the net unfunded

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liability for the Public Service Pension Plan was \$1.756 billion (2005 - \$1.671 billion). Therefore, even with the \$60 million special payment, the unfunded liability increased by \$84.5 million during the year.

(b) Teachers' Pension Plan

During the 1999 fiscal year, 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 agreed to contribute up to \$815 million to the Plan over a 14 year period. Government paid \$166 million towards this commitment in 1999 and 2000, and paid \$76 million in each fiscal year from 2001 to 2005. Additional annual payments were to be made in installments of \$76 million until the remaining balance of an initial obligation of \$815 million, plus interest, had been paid.

However, in March 2006, Government reached an agreement with the Newfoundland and Labrador Teachers' Association and contributed a total of \$2.019 billion for the 2006 fiscal year. This amount was comprised of \$1.953 billion Atlantic Accord (2005) money, special payment of \$56 million and a transfer of \$10 million from the Members of the House of Assembly Pension Plan. There are no more planned special payments after fiscal 2006. As at 31 March 2006, the net unfunded liability for the Teachers' Pension Plan was \$200.1 million (2005 - \$2.044 billion).

(c) Uniformed Services Pension Plan

During the 2002 fiscal year, the Province agreed to a five-year commitment to provide an annual payment of \$20 million to the Uniformed Services Pension Plan. As at 31 March 2006, the net unfunded liability for the Uniformed Services Pension Plan was \$170.6 million (2005 - \$175.4 million).

(d) Members of the House of Assembly Pension Plan

During the 2002 fiscal year, the Province agreed to a five-year commitment to provide an annual payment of \$7.5 million to the Plan. However, these payments will only be allowable under the Federal *Income Tax Act* to the extent that they fully fund the registered component of the Plan. There were no special payments made during 2006. As at 31 March 2006, the net unfunded liability for the Members of the House of Assembly Pension Plan was \$52.1 million, an increase of \$11.8 million over the 2005 unfunded liability of \$40.3 million.

(e) Provincial Court Judges' Pension Plan

No special payments have been made to the Provincial Court Judges' Pension Plan since its inception in fiscal 2004. As at 31 March 2006, the net unfunded liability for the Provincial Court Judges' Pension Plan was \$4.0 million, an increase of \$800,000 over the 2005 unfunded liability of \$3.2 million.

(f) MUN Pension Plan

During the 2006 fiscal year, MUN made a special payment of \$7 million as the first of a series of planned special payments to the MUN Pension Plan. As at 31 March 2006, the net unfunded liability for the MUN Pension Plan was \$18.7 million. (MUN was included in the consolidated summary financial statements for the first time in 2006).

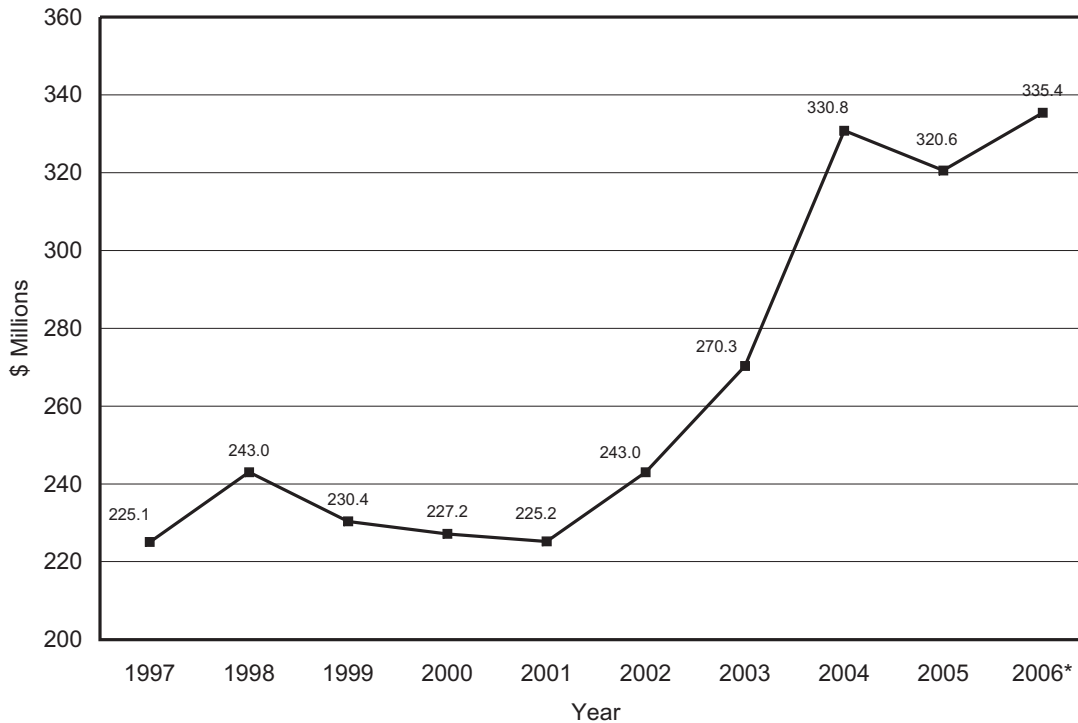
Interest Costs

The interest costs relating to the pension plans each year from 1997 to 2006 are outlined in Figure 5.

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Figure 5

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



* 2006 includes \$6.1 million interest related to the MUN Pension Plan (prior years numbers have not been restated to include MUN)

Figure 5 indicates that since 2001 there has been a significant increase in interest costs associated with the Province's unfunded pension liability. In 2001, interest costs amounted to \$225.2 million while in 2006, interest costs were \$335.4 million, an increase of \$110.2 million or 49%.

As a result of the additional special payment of \$1.953 billion to the Teachers' Pension Plan being made in March 2006 the interest costs in that year still remained at prior years' levels. Interest costs in future years will decrease as a result of that contribution. It is noted that interest costs reflected in the Province's Estimates for 2007 are \$157.1 million, a decrease of \$178.3 million from actual interest costs for 2006.

Recommendation

Government should continue to closely manage the Province's unfunded pension liability.

4.2 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 Government employees, Members of the House of Assembly and Provincial Court Judges are managed by Government. Plans for teachers are managed by the Newfoundland and Labrador Teachers' Association and plans for employees of Memorial University of Newfoundland are managed by the University.

As at 31 March 2006, the plans provided benefits to a total of 17,502 retirees. 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).

Prior to 2004, 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 prescribed 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 2005 fiscal year), Government in this Province decided to implement the new standards for the 2004 fiscal year.

A net liability as at 31 March 2006 of \$1.265 billion (2005 - \$1.159 billion) is recognized in the Province's consolidated summary financial statements relating to group health and group life insurance retirement benefits.

Figure 6 provides information regarding the net liability as extrapolated to 31 March 2010.