

### 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.

## Comments on Selected Financial Information

**Figure 6**

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

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007 f</b>	<b>2008 f</b>	<b>2009 f</b>	<b>2010 f</b>
Accrued Benefit Obligation	0.985	1.206	1.289	1.457	1.469	1.552	1.637	1.723
Unamortized Experience Losses	-	0.139	0.130	0.192	0.153	0.141	0.128	0.116
<b>Net Liability</b>	<b>0.985</b>	<b>1.067</b>	<b>1.159</b>	<b>1.265</b>	<b>1.316</b>	<b>1.411</b>	<b>1.509</b>	<b>1.607</b>

f - forecasted

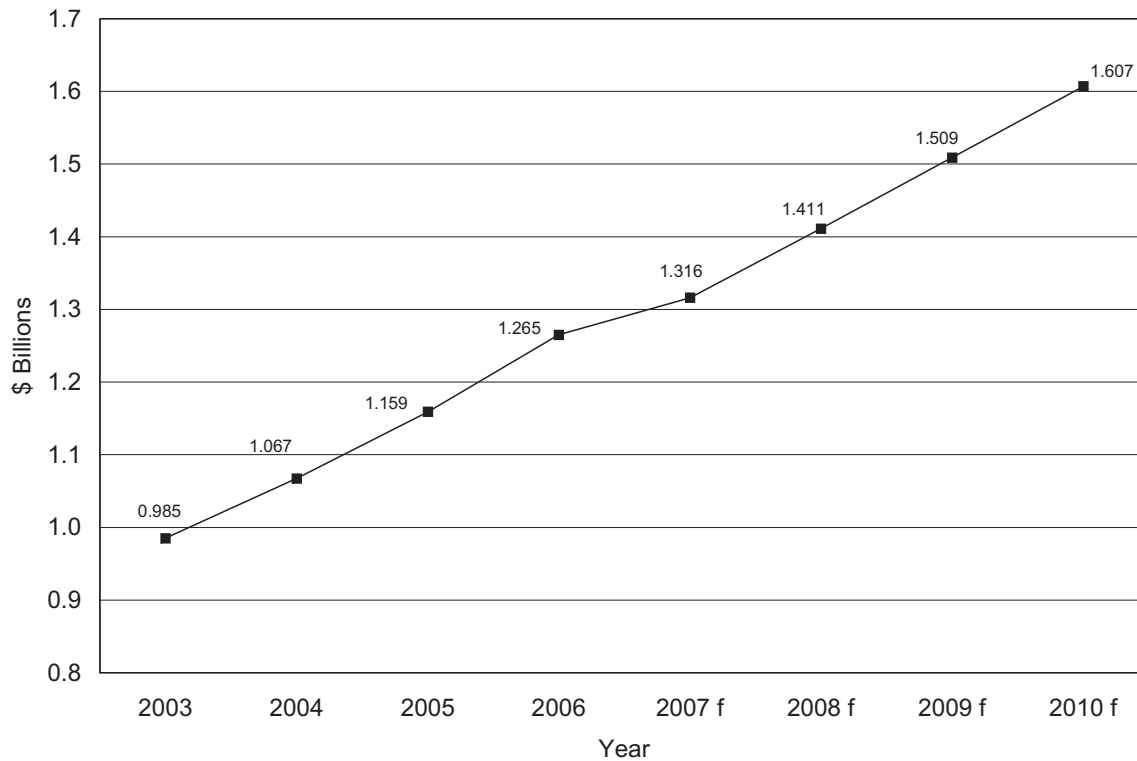
Source: Public Accounts and Actuarial Valuation

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 2010 the net liability is expected to total \$1.607 billion, an increase of \$622 million or 63% 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)**



f - forecasted

**Recommendation**

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