

2.15 Province of Newfoundland and Labrador Pooled Pension Fund

The Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) was created on 1 July 1980 under the authority of the *Pensions Funding Act* for the purpose of providing for the funding of the pension plans sponsored by the Province.

Pension Investment Committee and Newvest Realty Corporation

The Pension Investment Committee decided it would create an entity to administer up to \$200 million in real estate, comprised of a maximum of \$100 million from the Pension Fund, and a maximum of \$100 million in mortgages. As a result, Newvest Realty Corporation was formed. The Committee has contracted with Penreal Capital Management Limited Partnership of Ontario to manage the real estate activities.

Newvest, to August 2003, has acquired real estate costing \$77.59 million. Our review of the Committee's involvement in directing and controlling the real estate activities of Newvest indicated the following:

- The Pension Investment Committee does not require an independent external appraisal prior to the acquisition of real estate property. In addition, neither the Committee nor the Pensions Division of the Department of Finance have visited any of the real estate properties.
- During our financial statement audit of Newvest Realty Corporation, we identified several operational issues which were reported to the Committee. The Committee was not aware of these issues prior to our work.

Our review also indicated that Newvest Realty Corporation contravened the *Financial Administration Act* by borrowing without legislative authority. This resulted from the Corporation financing real estate purchases for four properties through mortgages totalling \$46.62 million.

Pension Plan Deficiencies

Even though Government has committed substantial annual special payments to address pension funding issues (\$163.5 million for 2003-04), two of the pension plans will be depleted of assets and require deficiency payments. The Uniformed Services Pension Plan will be the first affected in 2013-14 and will require annual deficiency payments estimated to be approximately \$17 million while the Teachers' Pension Plan will require annual deficiency payments commencing in 2015-16 which are estimated to be approximately \$200 million. These deficiency payments are in addition to the \$60 million annual special payments for the Public Service Pension Plan estimated by the actuary to be required until at least 2031.

Changes in the Unfunded Pension Liability During the Year

The unfunded pension liability represents a significant debt for Government and at 31 March 2003 totalled \$3.56 billion. The unfunded pension liability is comprised of the accumulated difference between pension contributions received and pension benefits paid, together with the impact of the Fund's investment activity and any actuarial changes. Although Government has taken some action to address the unfunded pension liability, the liability continues to increase.

Our review of the change in the unfunded pension liability indicated the following:

- During the year, the Fund reported significant decreases in the actuarial value of its assets (\$430 million) and a significant increase in the value of its estimated accrued benefit obligation (\$748 million). This resulted in an increase of \$1.18 billion in the net pension liability.
- With the exception of the Members of the House of Assembly Pension Plan, pension contributions by active members of the plans, together with matching employer contributions, are sufficient to meet current service costs. However, these contributions are not sufficient to meet the pensions costs of individuals who retired prior to the Fund being established.

- The number of pensioners is steadily increasing while the number of active members contributing to the Fund has remained relatively constant. As a result, pension benefits are increasing at a much higher rate than pension contributions. For 2002, pension benefits of \$296 million exceeded total contributions of \$202 million, excluding special payments of \$144 million, by \$94 million (or 47%).
- In 1998, Government started to make special payments into the Fund with a view to reducing the unfunded pension liability. Since that time Government has made special payments totalling approximately \$840 million. However, these payments are not large enough to reduce the unfunded pension liability - in fact, the unfunded liability over that time increased by over \$200 million.
- Interest costs on the unfunded pension liability have increased from \$171 million in 1994 to \$270 million in 2003, an increase of \$99 million (or 58%).
- Over the last two years the Fund, similar to many other large pension funds in Canada, has suffered significant losses on its investments. For the year ended 31 December 2002, the Fund recorded a loss of \$73 million on the sale of investments and also recorded a decline of \$179 million in the market value of investments held at year end.

2.16 Food Premises Inspections and Licensing

The Department of Health and Community Services has the mandate for some of the programs and services being delivered by the Government Service Centre, including the food premises inspection and licensing program.

The *Food and Drug Act* provides for the inspection of food premises to ensure public safety in relation to the food supply. The *Food Premises Regulations* were enacted under the *Food and Drug Act* to prescribe the manner in which food intended for human consumption should be prepared, packaged, stored, transported, sold, advertised or exposed for sale, and delivered. An integral part of the inspection