Financial status of pensions

13

Main points

In 2001, the Department of Finance gave the Standing Committee on Public Accounts (PAC) a report and presentation setting out how the Government plans to address its pension debt. The Department provided financial information and data and concluded that the Government would eliminate the pension debt by paying retirement benefits and making required contributions over the next 50 to 60 years. The Department also concluded that the payments are manageable and affordable.

In this chapter, we study how the Department's projections compare to the actual financial and economic performance. The study showed that the Government is better able to afford its pension debt in 2006 then it was in 2000. We encourage legislators and the public to use the updated information in this chapter to discuss the Government's management of its pension debt.

Introduction

At March 31, 2006, the Government's pension debt totalled $4.3 billion[1]. The pension debt for Saskatchewan is 30% of the Government's total debt[2] at the year-end. The pension debt is the amount by which the pension obligations exceed the assets of the pension plans.

Legislators and the public often ask how the Government plans to pay for this large pension debt. In 2001, the Department of Finance gave the Standing Committee on Public Accounts (PAC) a report[3] and presentation setting out how the Government plans to address its pension debt. The Department provided various financial information and data, and concluded that the Government would eliminate the pension debt by paying retirement benefits and making required contributions over the next 50 to 60 years. The Department also concluded that the payments are manageable and affordable.

Graph 1

Note – B.C. has a $3 million pension liability

Source: Financial information from the audited summary financial statements prepared for each province for the year ended March 31, 2005.

Graph 1 shows that the Government's pension debt is the third highest among the provinces. The most recent year for which complete information is

[1] Note 6 of the summary financial statements (Public Accounts 2005-06 – Volume 1). The Government is responsible for paying the $4.3 billion in unfunded government service organizations' pensions promised by the Government. The following are involved: Teacher's Superannuation Plan, Public Service Superannuation Plan, Judges of the Provincial Court Superannuation Plan, Saskatchewan Transportation Company Employees Superannuation Plan, Anti-TB League Employees Superannuation Plan, Saskatchewan Pension Annuity Fund, and the former MLA Fund.

[2] Total debt of $14.1 billion in the summary financial statements (2005-06 Public Accounts – Volume 1).

[3] Saskatchewan Finance. (March 2001). *Report on addressing unfunded pension liabilities.* Regina: Author. [This document can be obtained from the Standing Committee on Public Accounts as tabled document 12/24].

available for all provinces is March 31, 2005. Provinces manage their pension debt according to their own fiscal strategies. There does not appear to be a consistent strategy among the provinces.

We decided to study how the financial information the Department used in its 2001 report and presentation to PAC compares to the current finances. This will help assess the challenges the Government faces in managing the debt.

For this study, we used the measures the Department used in 2001. In 2001, it focused primarily on the Teachers Superannuation Plan (TSP) and the Public Service Superannuation Plan (PSSP). Throughout the study, we used the information available for these pension plans for their years ended on or before March 31, 2006. We obtained information about the General Revenue Fund (GRF) and Summary Financial Statements (SFS) from the Public Accounts (www.gov.sk.ca/finance/paccts).

In 2001, the Department used the following measures:

- future payments for unfunded plans
- pension payments compared to available revenue
- managing the Government debt
- future affordability

The remainder of the chapter examines each of these measures. Our work is not an audit.

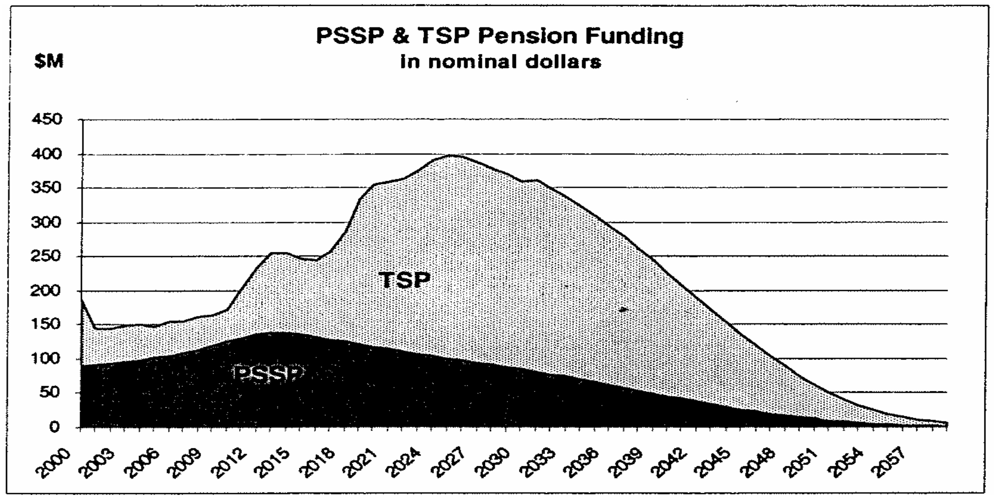
Future payments for unfunded plans

The measure shows the Government's future cash flows in nominal dollars attributable to TSP and PSSP. The pension debt and the expected cash flows are actuarially calculated and based on significant estimates and assumptions concerning inflation, mortality rates, wage rates, and investment returns.

PSSP did not project its cash flows in constant dollars (i.e., today's dollars) in its actuarial valuation as at December 31, 2005. Accordingly, for this measure we cannot provide information in constant dollars.

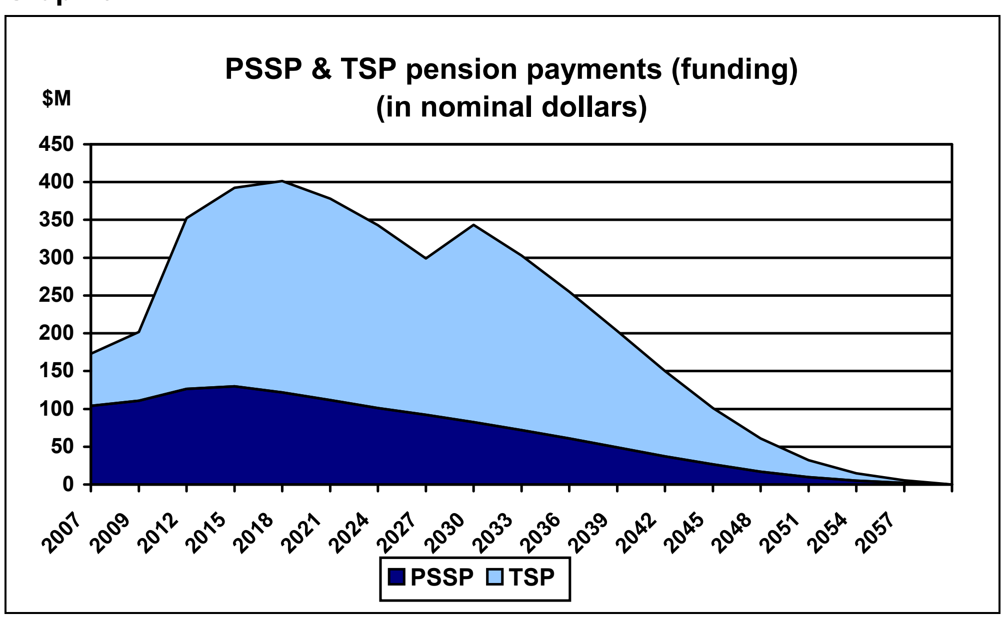
The Department included Graph 2 in its March 13, 2001 report to PAC. The graph shows the Department expected the future cash flows for TSP and PSSP to peak in 2025 at about $396 million.

Graph 2 (from the Department's report to PAC March 13, 2001)



Graph 3 shows the updated cash flow information. Based on the actuarial valuation of those plans for the year ended on or before March 31, 2006, the future cash flows will increase over the next eight years and will peak around 2018 for total combined cash outflow of $401 million. The updated information suggests that cash flows would grow faster than anticipated by the Department in 2001. This will require more careful cash flow management during the next decade. The Department in its report said the TSP displays significant volatility over the next 20 years.

Graph 3

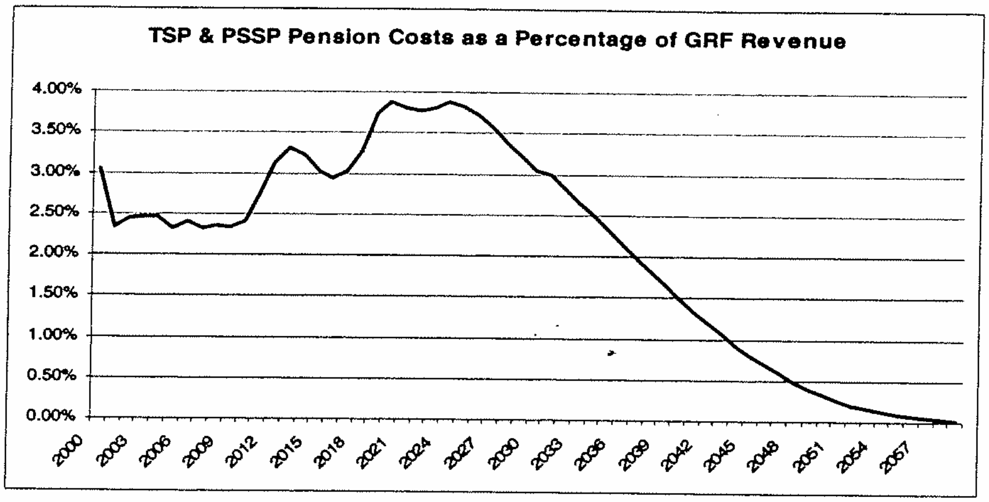


Source: Actuarial valuations for the year ended on or before March 31, 2006.

Pension payments compared to available revenue

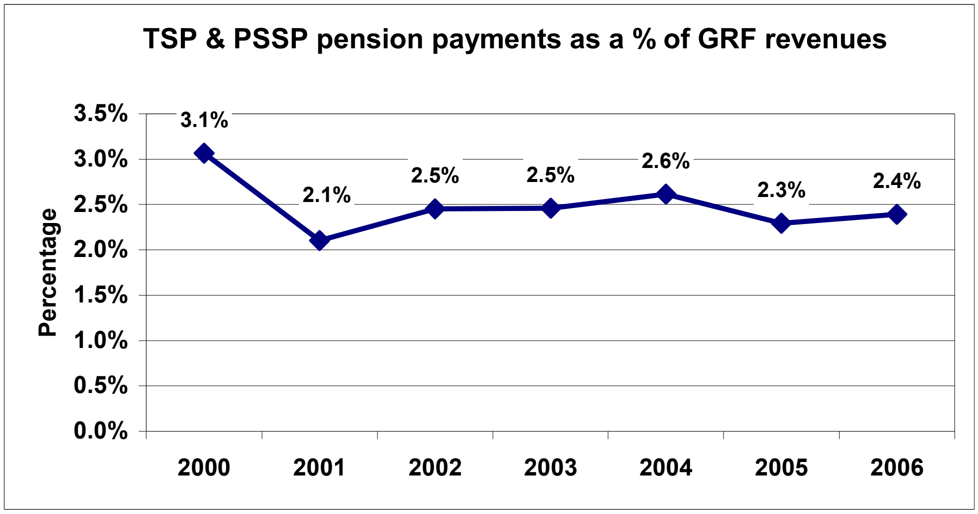
This measure shows the Government's flexibility to respond to rising commitments (i.e., increased pension payments) with its revenues. Changes in this measure affect the Government's ability to incur increasing pension payments while continuing to provide other essential government services. Graph 4 shows the Department's expectations in 2001. It shows that the Department expected that TSP and PSSP pension costs (i.e., payments) in 2006 would be about 2.4% of GRF revenue. The graph also shows pension payments compared to revenue peaking at about 4% around 2025. Graph 3 indicates that the peak will now be about 2018, almost seven years earlier.

Graph 4 (from the Department's report to PAC March 13, 2001)



The Department's expectations for 2006 have proven to be correct. As shown in Graph 5, pension payments for TSP and PSSP were 2.4% of GRF revenue in 2006.

Graph 5

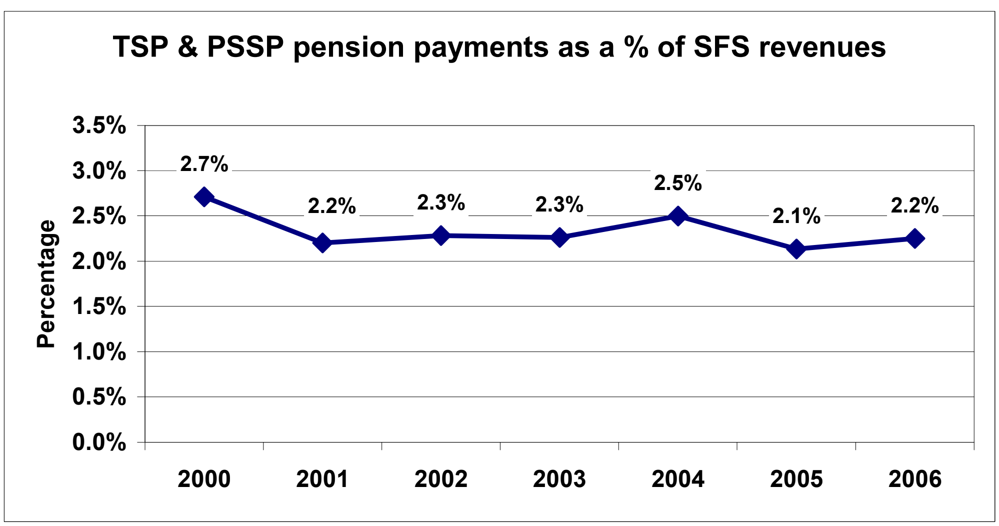


Source: Payments derived from components of the pension expense in the GRF financial statements.

However, comparing pension payments to the Government's total revenue as recorded in the SFS would be a better indicator of the Government's ability to manage its pension debt.

Graph 6 shows the Government's total pensions payments as a percentage of the SFS revenues. The graph shows that from 2000 to 2006, pension payments have decreased from 2.7% to 2.2%. The Government, in 2006, used less of its revenue to make pension payments.

Graph 6



Source: Payments derived from components of the pension expense in the Government's summary financial statements.

Managing the Government debt

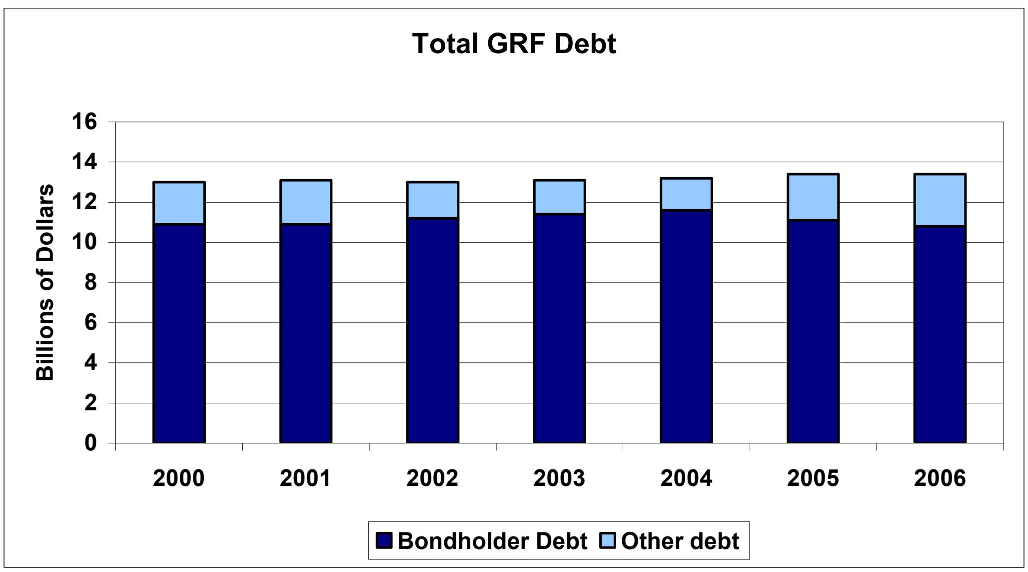
In its 2001 report to PAC, the Department said:

> ….it makes little sense to reduce pension debt by increasing other GRF debt by an equivalent amount. Accordingly, the pension obligation should be examined in the light of all government debt reduction.

The Department also said that the Government's current "debt retirement" plan was to retire the pension debt by paying pension payments over the lifetime of the retired members and that:

> …the Government was committed to balanced budgets and surpluses which will reduce the GRF debt. Overall both pension debt and other debt will be reduced in nominal and real terms.

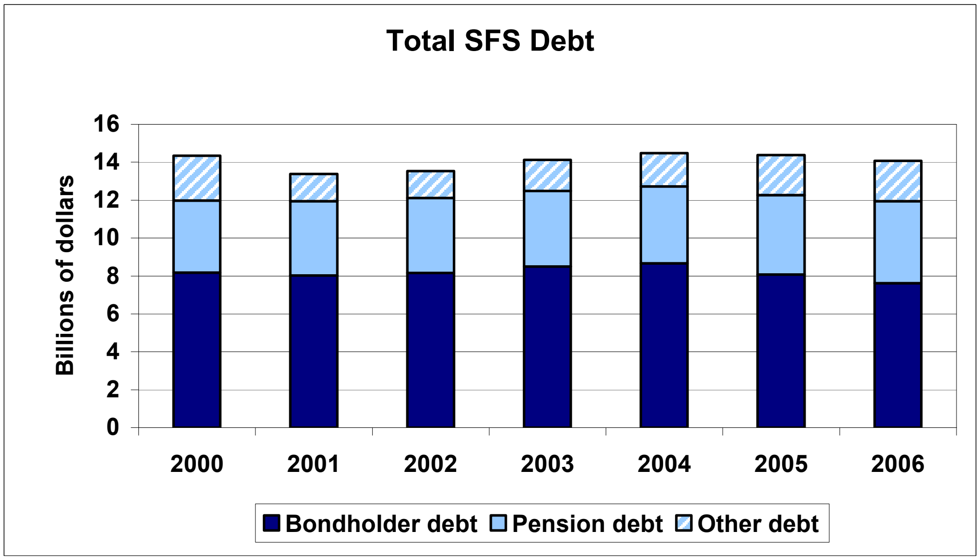
Graph 7



Graph 7 shows the GRF debt for the past seven years according to the GRF Statement of Financial Position. The GRF Statement of Financial Position does not record the pension debt. As a result, the GRF financial statements are not useful to measure performance on reducing overall debt. We reserved our audit opinion on the GRF financial statements because they did not record pension debt.

The Government's SFS provide complete financial information. Accordingly, using the debt recorded in SFS would be a better measure to demonstrate the debt retirement plan. Graph 8 shows the total debt of the Government from March 31, 2000 to 2006. The graph shows the Government's debt has declined slightly. The total debt includes amounts due to creditors including members of pension plans, bondholders, and suppliers.

Graph 8

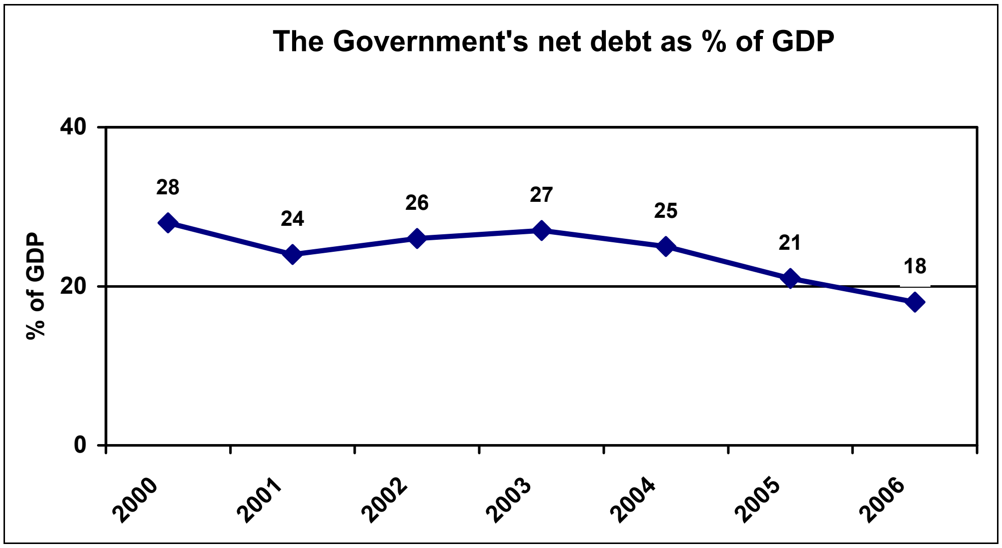


Future affordability

Comparing the Government's net debt to the state of the economy (i.e., GDP) helps explain the affordability of the Government's debt. A growing economy helps governments to maintain their programs and reduce debt. Graph 9 below shows that since 2000 the government's net debt has decreased from about 28% of GDP[4] to about 18% of GDP in 2006. The Government is better able to afford its debt in 2006 then it was in 2000.

[4] Source: Saskatchewan Bureau of Statistics for GDP at December 31. GDP statistics reflect the previous calendar year since statistics are not available for twelve-month periods ending March 31. GDP is not adjusted for inflation (i.e., nominal GDP).

Graph 9



Summary

Our study shows that most of the Government's 2001 projections compare well to the actual financial and economic performance. The Government needs to continue to monitor cash flows carefully to manage its debt including its pension debt. We encourage legislators and the public to use the above analysis to discuss the Government's plan to manage its pension debt.

Glossary

Defined benefit pension plan – a pension plan that specifies the pension that members of the plan receive on retirement or the method of determining the pension.

Net debt – is the total liabilities less the total financial assets. If the total financial assets exceed the total liabilities, there are net assets.

General Revenue Fund – a special purpose fund that the Government uses to pay for some of its programs. By law, the Legislative Assembly must approve the spending from the General Revenue Fund.

Government business enterprises – are self-sufficient Crown corporations that have the financial and operating authority to sell goods and services to individuals and non-governmental organizations as their principal activity. Examples include SaskPower, SaskEnergy, SaskTel, and the Liquor and Gaming Authority. Their financial results are included in Schedule 3 to the financial statements.

Government service organizations – are organizations that are accountable to the Government and are either owned or controlled by the Government, are not government enterprises. A listing of government service organizations is provided in Schedule 14 of the summary financial statements.

Summary financial statements – is a report of the financial results of all organizations that the Government uses to provide goods and services to the public. The summary financial statements combine the financial activity of all government organizations including departments, Crown corporations, agencies, boards, and commissions, etc.

Pension debt – the amount by which the pension obligation exceeds the assets of the pension plan.

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