

Chapter 3

Teachers' Superannuation Commission

1.0 MAIN POINTS

The 2011 financial statements for the Teachers' Superannuation Plan and the Teachers' Group Life Insurance Plan are reliable. Also, the Teachers' Superannuation Commission (Commission) complied with its governing authorities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing and investing.

The Commission has made some progress to improve its processes to adequately safeguard public resources. However, more work remains. The Commission needs to:

- › Implement processes to monitor its dental agreement with the insurance provider and have adequate support for dental payments
- › Establish guidance for preparing financial reports of the Dental Plan and include these financial statements in its annual report

The Ministry of Education (Ministry) pays the Government's share of the teachers' pension benefits of the Teachers' Superannuation Plan based on a formula set out in law. The Ministry follows policies set by Treasury Board to account for these payments. These policies are not in accordance with the Canadian public sector accounting principles. As a result, the Ministry understates the amount of teacher's pension and benefits reported in its estimates and in its annual report. For example, in the year ended March 31, 2011, the Ministry reported \$184 million for teacher's pension and benefits expense when it should have reported \$407 million. In addition, we continue to report that the General Revenue Fund financial statements understate the teacher's pension and benefits expense and do not report the \$4.1 billion owed for teacher's pension and benefits.

In this chapter, we make two new recommendations so legislators and the public will receive accurate information about the planned and actual costs of teacher's pensions and benefits.

2.0 INTRODUCTION

The Commission operates under the authority of *The Teachers' Superannuation and Disability Benefits Act*. The Commission consists of seven members appointed by Cabinet. The Saskatchewan Teachers' Federation and the Ministry each nominate three members and these six members nominate the Commission's Chairperson. The Commission collects pension plan contributions, provides pension benefits, and administers certain teachers' benefit programs.

The Commission administers the Teachers' Superannuation Plan (Plan) established under *The Teachers' Superannuation and Disability Benefits Act*. The Plan consists of the Teachers' Superannuation Fund, a defined benefit final average pension plan, and the Voluntary Contributions Fund that invests members' voluntary contributions. The Plan's members are teachers who commenced service prior to July 1, 1980.



In 2010-11, the Plan recorded contributions of \$6 million from plan members and \$95 million from the Minister of Finance.¹ At June 30, 2011, the Plan held total assets of \$896 million and had accrued pension benefits of \$5.4 billion resulting in an unfunded pension liability of \$4.6 billion.²

The Commission administers the Teachers' Dental Plan (Dental Plan), the Teachers' Disability Plan (Disability Plan), and Teachers' Group Life Insurance (Group Life).³ The Commission has hired an insurance company to help administer the Dental Plan and Group Life programs. Teachers do not pay for disability and dental benefits and pay half of the premiums required for group life benefits. The Commission receives money from the General Revenue Fund (Ministry of Education) to pay for these benefit programs.

During 2010, the Commission received and paid approximately \$9.7 million in dental claims and administrative costs.⁴ In 2010-11, the Commission received and paid approximately \$4.4 million in disability claims.⁵ In 2010-11, the Commission paid about \$4.8 million in group life claims.⁶

3.0 AUDIT CONCLUSIONS AND FINDINGS

In our opinion, for the year ended June 30, 2011:

- › **The Commission had adequate rules and procedures to safeguard public resources except for the matters described in this chapter**
- › **The Commission complied with the following authorities governing its activities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing:**

The Teachers' Superannuation and Disability Benefits Act
The Teachers' Superannuation and Disability Benefits Regulations
The Teachers' Dental Plan Act
The Teachers' Life Insurance (Government Contributory) Act
The Teachers' Life Insurance Regulations
The Pension Benefits Act, 1992 (Section 44)
The Pension Benefits Regulations, 1993 (Section 38)
The Financial Administration Act, 1993
The Crown Employment Contracts Act
Pension Benefits Standards Regulations, 1985 (Canada)
Income Tax Act (Canada) (Sections 147.1, 147.2, 147.3)
Income Tax Regulations (Canada) (Sections 8501-8504; 8512; 8514; 8520)
Orders in Council issued pursuant to the above legislation

- › **The financial statements for the Teachers' Superannuation Plan and the Group Life Insurance Plan are reliable**

¹ Saskatchewan Teachers' Superannuation Commission, *Superannuation Dental 10-11 Annual Report*, p. 28.

² *Ibid.*, p. 27.

³ Dental has a December 31 year end. The Plan and Disability each have a June 30 year end. Group Life has an August 31 year end.

⁴ Saskatchewan Teachers' Superannuation Commission, *Superannuation Dental 10-11 Annual Report*, p. 23.

⁵ *Ibid.*, p. 22.

⁶ Saskatchewan Teachers' Superannuation Commission *Group Life 10-11 Annual Report*, p. 13.

3.1 Adequate Support for Dental Payments Needed

We recommended that the Teachers' Superannuation Commission have adequate support for dental payments. (2009 Report – Volume 1)

Status – We continue to make this recommendation.

On September 1, 2009, the Standing Committee on Public Accounts (PAC) agreed with our recommendation.

During 2010-11, the Commission has worked with its service provider to obtain the financial data necessary to support the dental payments. The Commission is developing a system to reconcile the manual dental invoices with the monthly paid report.

3.2 Need Processes to Monitor Dental Agreement

We recommended that the Teachers' Superannuation Commission implement adequate processes to establish and monitor its dental agreement with the insurance provider. (2010 Report – Volume 1)

Status – We continue to make this recommendation.

On January 19, 2011, PAC agreed with our recommendation.

As previously noted, the Commission worked with its service provider to receive data to establish a reconciliation process to support the dental payments. Once the financial reconciliation process is established, management told us they will update the agreement with the service provider and develop written guidance to monitor the agreement.

3.3 Need Guidance for Preparing Dental Plan Financial Reports

We recommended that the Teachers' Superannuation Commission establish complete and written guidance for preparing interim and year-end financial reports. (2008 Report – Volume 1)

Status – We continue to make this recommendation for the Dental Plan.

On June 17, 2008, PAC agreed with our recommendation.



The Commission has documented its procedures to prepare interim and year-end financial reports for the Dental Plan and Group Life. Management told us they intend to establish guidance to prepare interim and year-end financial statements for the Dental Plan once they have developed and finalized processes for reconciling the financial information.

3.4 Need Dental Plan Financial Statements

We recommend that the Teachers' Superannuation Commission's annual report include the financial statements of each benefit plan the Commission administers. (2008 Report – Volume 1)

Status – We continue to make this recommendation for the Dental Plan.

On June 17, 2008, PAC agreed with our recommendation.

Management told us they intend to prepare the Dental Plan financial statements and include them in the Commission's annual report once they have developed and finalized processes for reconciling the financial information. In the interim, the Commission provides summarized financial information about the Dental Plan's expenses.

Because it would be costly to prepare annual financial statements for the Disability Plan, in comparison to the actual benefits paid, we no longer recommend that the Commission produce Disability Plan financial statements. The Commission's annual report includes financial information for the Disability Plan.

4.0 TEACHERS' PENSION BENEFITS REMAIN UNFUNDED

School divisions are not responsible for the cost of teachers' pension benefits. The Ministry pays the Government's share of teachers' pension benefits of the Teachers' Superannuation Plan based on a formula set out in law.

The Ministry follows policies set by Treasury Board to prepare its financial plan (Estimates) and to account for its activities. In our audit opinion on the 2011 financial statements of the General Revenue Fund, we continue to report that the Government does not use Canadian public sector accounting principles to account for pension benefits.⁷ This includes amounts related to teachers' pension benefits. As reflected in Figure 1, the amount of teachers' pension debt not reported in the General Revenue Fund financial statements has grown from \$2.8 billion in 2007 to \$4.1 billion in 2011.

Figure 1 – Teacher's Pension and Benefits Expense and Debt

As at March 31 (in \$ millions)	2011	2010	2009	2008	2007
Teacher's pension and benefits expense reported in the Ministry's annual report	184	143	132	112	177

⁷ *Public Accounts 2010-11: Volume 1: Main Financial Statements*, Auditor's Report [on the General Revenue Fund], pp. 47-48.

As at March 31 (in \$ millions)	2011	2010	2009	2008	2007
Teacher's pension and benefits expense that should have been reported in the Ministry's annual report	407	443	442	457	412
Teachers' pension debt not reported in the General Revenue Fund	4,100	3,800	3,500	3,190	2,840

- 1. We recommend that the Government use Canadian public sector accounting principles to record the Teachers' Superannuation Plan's pension benefits expense and related pension debt in the Estimates and financial statements of the General Revenue Fund so that legislators and the public receive accurate information about the planned and actual costs of teachers' pensions.**

Because the Ministry uses the accounting policies of the General Revenue Fund, the Ministry understates the amount of teacher's pension and benefits expense reported in its Estimates and in its annual report. The Ministry does not provide legislators and the public with information on the full costs of expected and actual costs of teachers' pensions. For the year ended March 31, 2011, the Ministry estimated that the cost of teacher's pensions and benefits would be \$177 million. As shown in Figure 1, for the year ended March 31, 2011, the Ministry reported in its annual report actual costs of \$184 million. It should have reported actual costs of \$407 million.

- 2. We recommend that the Ministry of Education base the amount of Teachers' Superannuation Plan's pension benefits expense reported in its Estimates and Annual Report on Canadian public sector accounting principles so that legislators and the public receive accurate information about the planned and actual costs of teachers' pensions.**

In 2009, the Government had projected the teachers' pension debt to peak in 2013-14 at about \$4.3 billion.⁸ The Teachers' Superannuation Commission estimated, as at June 30, 2011, the teachers' pension debt to be \$4.6 billion.

As reported in our 2011 Report – Volume 2 (Chapter 12, pp. 224 – 225), the costs of the Teachers' pension plan have increased faster than the Ministry's contributions. For the year ended June 30, 2011, the Superannuation Plan's payments to pensioners were \$319.7 million and contributions were \$102.7 million including the Ministry's contribution of \$88.9 million. This difference resulted in the Superannuation Plan using its investments to fund pension payments. For the year ended June 30, 2011, the net assets of the Superannuation Plan decreased by \$107 million (i.e., from \$999 million at June 30, 2010 to \$892 million at June 30, 2011).

In future years, the Ministry will need to spend more to pay for past pension promises.

⁸ Provincial Auditor Saskatchewan 2011 Report – Volume 2, p. 225.

