The Chairperson: — I'd like to call the meeting to order. There's a number of things that Eric and I have talked about, and I'll lay some out before the committee. And then if Eric has some more that he wants to add to that, then we'll pause and we'll do that. And then at the end of the meeting we'll make some decisions about . . . or maybe visit a little bit more about it.

One of the things that is likely to occur in the next few weeks is that extended hours are probably a likelihood rather than not. So I understand that by . . . they're not likely to be here by next week Tuesday; however it would be reasonable to expect they'll be there shortly after that, or whatever. I don't know exactly. But anyway, maybe you folks have a little bigger window on that than I do.

Anyway, having said that, we probably have today and next Tuesday to do Public Accounts Committee. That leaves us with the work to be done probably intersessionally. There's probably two times when they could be done if you want a one-week session. Sometime September or October for a week, and January or February for a week. So you can put that in the framework of your mind.

The second thing that we have to deal with is the special report of the auditor; that's this one. That is the item 3 and 4 on the agenda, and they probably could be dealt with in conjunction with chapter 3 of your regular auditor's report. And if you want to do it at that time, I don't have a problem with dealing with it in that framework. We would probably leave July and August out of any meeting at all.

There are a number of things that you probably should consider in how we set up the agenda. We probably need to have some information about who you want to call, like out of the auditor's report, who do you want to have before the committee? Who do you want to call as extra witnesses if there would be some required? I'll just use the example, Crop Insurance. Would you want more than the president here or whatever?

And in order to do that, I would probably need to have some idea in a general way — I don't need to be terribly specific — but in a general way if you want to have other individuals here besides. We probably need to have a . . . well we need to call them. And we need to call them early enough to have them fill the time or slot their time as well as we do ours.

So those are the kinds of things that I think you need to think about, and we will talk about them at the end. Eric, have you got something to add onto that?

Mr. Cline: — No, thank you.

The Chairperson: — Okay. And we'll leave that for about five or ten minutes at the conclusion, and then we'll deal with that.

I've asked Mr. Strelioff to take us through chapter 1. And what we'll do is, if we've got some questions on chapter 1 . . . or how do you want to handle it? Do you want to just go through it, and then let us ask you questions, or is there . . .

Mr. Strelioff: — I can answer questions while I'm discussing or at the end or whenever the questions appear.

The Chairperson: — Okay, we'll do it that way then. Then fairly comfortable. If you just have an observation you want to make during the discussion, don't hesitate to let me know, and we'll plug it in.

Now it's your turn.

Mr. Strelioff: — How long are we going till today?

The Chairperson: — I think maybe 5 or 10 after 10. I have caucus meetings at 10 o'clock, and I'd rather not miss them . . . (inaudible interjection) . . . Yes, right. Bob and I will get in an argument if we talk about Gretzky or . . .

Mr. Van Mulligen: — Chapter 1 is just an overall summary of what's to follow, right?

Mr. Strelioff: — Chapter 1 is a chapter that I do almost at the end of the report and sit back and say, now just where do I think are the key issues and where do I think, how do I think progress is evolving?

Mr. Van Mulligen: — Can you identify like, the specific paragraphs of chapters that deal then with the special report so that when we end up discussing, you know, the issue, we're not sort of going at it two or three different times.

Mr. Strelioff: — So the special report, what you're left with I think are recommendations 3 and 4. Recommendation 3 has to do with just helping to strengthen the audit system, and recommendation 4 sets some criteria on which to move forward the audit system.

Now in the annual report, it's dealt with to some degree in chapter 3 where one of the last issues in the chapter on page 28 deals with recommendations 3 and 4. And the first part of chapter 4 deals with recommendations 3 and 4 of the special report. Remember the special report was prepared after the annual report and in response to the legislation that surfaced. And also I note in chapter 1 that that also is an issue, but it's dealt with it more specifically at the end of chapter 3 and then at the beginning of chapter 4.

Is that the information you wished, Mr. Van Mulligen?

The purpose of my observations today are to take you through four topics: to reintroduce you to our annual report and how it's put together; to just go over some of the key events that had a significant impact on our office during the year; to go over the organization of the report so you can follow how it is organized; and then to discuss chapter 1 and 2.

Remember that our responsibilities to prepare this annual report are in The Provincial Auditor Act. And that's where our responsibilities are set out and also provides us guidance on how to carry out those responsibilities. In The Provincial Auditor Act it also says that we're to appear at this committee and advise this committee. So it does set out many of the courses of action that you see us following.

What we do, and in general what we do is come to know and be known in our profession as comprehensive auditing, which has three main components. The three main components are examining financial statements, so when we examine financial statements we attempt to answer the question, are the financial reports provided by the government reliable? So we try to make that assessment and provide that information to you, the financial reports of each of the government organizations.

We also attempt to examine compliance with law. Now we focus our compliance with law examinations on financial-related legislation and actually carry out an examination to form an opinion. Has this organization, this government organization, complied with the key financial authorities?

And the third component of comprehensive auditing that we examine each year is to examine management controls in the sense of how well is the government safeguarding public assets and preparing financial reports, and provide opinions on the internal control or management control aspects of each organization. And we're beginning very slowly and very cautiously to also look at management's practices for ensuring economy and efficiency and effectiveness. Now that's what we do in terms of the types of examinations we carry out: three kinds and — under the umbrella of what's called in our profession, comprehensive auditing — the three components.

On page 279 of this annual report you can see the examples of the audit opinions or audit reports that we form on each government organization. We also ask the appointed auditors to form the same kind of opinions and provide those opinions to us.

And there's three opinions here. The first one relates to the management control systems. That's on page 279. And here's an example of an opinion that we get . . . I get from my staff; I also get from each of the public accounting firms that we work with.

The second one on the next page, on page 280, relates to opinions on compliance with legislative authorities. So for each of the government organizations, we form these opinions.

And the third one is the more traditional opinion on financial statements. The more traditional in the sense that when people think of auditing, they normally think of auditing an audit report on a set of financial statements and say, are those financial statements reliable? Well in the legislative audit world, we've moved beyond on the financial statement opinion and also look at compliance with legislative authorities and with management controls designed for various purposes.

If you move to page 93, to give you an example of these opinions and how we report on them in a specific department, we don't restate each opinion for each organization that we examine; otherwise the report would be a thousand pages long. Instead we summarize it very, very quickly.

Page 93 just shows the Department of Community Services. The first page, the first paragraph, paragraph .01, .02 and .03 is known in my world as the scope of our examination. Here's the types of activities we've examined as they relate to the responsibilities of the Department of Community Services and the minister responsible for that department. We give a brief, thumbnail sketch on the financial part of it, the budget versus actual comparison, and also note the special-purpose funds in Crown agencies that that department is responsible for. And that's known as the scope of our examination. You'll see that in each of the individual chapters. Here's what this department's responsible for and here's what we've examined.

Paragraph .04 and .05 then in a very quick summary way gives our opinions, the assurances that we're providing you on compliance with legislative authorities, on the internal control and on the financial statements. And .04 and .05 will just quickly summarize that in general we found that the department is complying with the legislative authorities, has reasonable internal controls, and the financial statements of each of the agencies and funds are also reliable, except where we've specifically noted in the rest of the chapter. So the first part are the assurances, and then we focus on some of the issues that we found during our examination during the year.

In our world, or in the world of auditors, the paragraphs .04 and .05 says a lot. There's a lot of assurances provided by our office to the Assembly on the reliability and compliance of legislative authorities and management practices. And then the balance of the chapter focuses in on the problems and issues that we think require reflection.

The standards that we follow are the standards that are recommended by the Canadian Institute of Chartered Accountants for public auditors in the public sector. And those are standards that should be adhered to by all the auditors across Canada and within the province of course as well.

Now during 1992-93 we had three priorities that we worked towards in carrying out our assignments. The priorities related to promoting better financial reporting by government as a whole.

Encouraging Crown agencies . . . The second one is encouraging Crown agencies and corporations to be more accountable to the Assembly, to help the Assembly scrutinize what they're doing in a more rigorous way and careful way. And also to begin to carry out broader or more in-depth examinations.

And I think I've said this in previous meetings, that we reorganized our office a year or two ago into three divisions. We focused particularly on Health, Education, and Finance, as being three key areas that, because of their financial significance, that our office has been focusing on in terms of building up our knowledge of the business and examining those areas more carefully. We also are focusing more on Crown corporations, particularly Crown Investments Corporation, and cross-government studies as well as professional-practice issues, to help us keep moving.

The priorities that we did identify during the year and I think we have moved forward on them — helped move practice ahead on each of them. The promoting better financial reporting . . . I still think the preparation of the summary financial statement for the province of Saskatchewan is a very significant step. It may not seem that way yet, but it sets the table and the framework for a lot of issues to move forward in a more forthright way, and for the first time sets out comparability, that you can actually compare one year to another year and begin to compare one province to another province in a more rigorous way, mainly because the summary financial statements are prepared in general on a basis that is a common basis accepted by the profession or accepted to greater or lesser extents across Canada by the profession and it provides a framework for developing a more common understanding of the state of our finances.

I noticed in yesterday's *Leader-Post*, I think in the . . . was it the *Leader-Post* or *The Globe and Mail* where the front page said one of the issues that was discussed at the meeting of Finance ministers was a common accounting method. So no doubt . . . At least I assume from that comment that when they get to the table to discuss the state of their finances for each of their jurisdictions, they have a difficult time deciding what numbers to use. And how they move forward issues with that doubt in the back of their mind must be quite troubling to all of the ministers.

And so it was interesting to note that as being one of the three or four issues that was at least listed by the press in reporting on what happened. I mean there's, as we all know, there's quite often a loose connection between what gets reported and what actually happens. But that's the way it is.

So the number one priority of promoting better financial reporting, the summary financial statements is an important move. Also the *Public Accounts* being produced by October 31 is a very significant step and is significant in terms of right across Canada.

There are very — probably Gerry knows better — but there are very few jurisdictions now in Canada that get their financial reports out any earlier than we do. And in a complete sense, the *Public Accounts* are far more complete than they were, and, my understanding, they'll get more complete. So that's, in terms of moving issues forward, those are two important issues in our world.

The second priority, making the Crown corporations . . . encouraging them to be more accountable to the Assembly, there has been progress in that area. I think CIC's (Crown Investments Corporation of Saskatchewan) financial statements, we've . . . I know in the previous about five years we kept on saying that the financial statements of CIC did not present fairly what they were doing. And when an auditor says "do not present fairly," that's a dramatic step or an extraordinary step for an auditor. It's sort of the worst-case scenario.

Well those practices have improved remarkably. I know the financial statements again for this year of CIC are more complete. Our main issue over the years has been that CIC would prepare an aggregated financial statement that show the results of . . . summarize the results of many corporations including SaskTel, SaskPower, STC (Saskatchewan Transportation Company), as well as integrate what CIC was actually doing with all its investments and money.

And our point was that that aggregated step statement is fine, is useful for getting an overview of an important sector of the economy. But what we were saying is, you also need to know what CIC was doing with the assets, with the resources that were provided to it either directly from the Assembly through appropriations or grants, or when they took dividends from Crown corporations and invested them and spent them. We really thought that getting that financial statement to the table is important. And now it is at the table.

And also that they're developing mandate statements and we're also working with the Crown Corporations Committee in terms of trying to advise them to lesser or greater extents on what's going on in the Crown corporation world. And that's an interesting step. It's still the relationship between this committee and that committee is kind of confusing, but so be it.

The third priority that we had — the first priority was promoting better financial reporting by government as a whole; then second, Crown corporations — the third one was examining broader and more in-depth issues, the broader issues that . . . When we say broader, what we're moving to is cross-government issues. So that in addition to examining one organization on its own, we also begin to look at cross-government issues. And in this report you'll see us looking at the annual reports of departments. And the objective was to determine whether there is information in there that helps legislators assess the performance of departments.

We're extending that project to Crown agencies and corporations right now. And we're also looking at more in-depth issues in a very slow and cautious way. And the first example of that was at the Department of Highways and Transportation where the issue related directly to economy, efficiency and how does the department ensure economy, efficiency in the way that they handle some of their operations.

We're continuing to do the cross-government studies, the roles . . . the annual report project. We're looking at the roles, responsibilities, and duties of boards of directors. Just last week we met with officials of the Crown Investments Corporation to help facilitate that project, and they're providing us a central vehicle to move that project forward in their community. And we're also going to be meeting with other central agencies to help us move that project forward in their jurisdictions. So the cross-government issues continue to move forward, a very important part.

In the year we did face quite a few interesting challenges that always add to the spice of an auditor's life. And it's very easy to spice up an auditor's life as you can easily imagine. Given that we're excited to discuss all the topics that are in this report, you can imagine what other kinds of issues might spice up our life.

But the ones that we observed in chapter 1, the issue of auditing the summary financial statements for the first time ever, was a major initiative, major initiative of the government, but it also meant a major piece of work by our office, and that seemed to work well.

And also completing our work on the Public Accounts early so that the October 31 deadline could be met. There was all sorts of excitement between our office and the comptroller's office in September and October when we tried to get some of those final financial statements, wrestle them down when there was so many other groups that didn't seem to want to wrestle them down in the same time frame as we did. But most of them happened.

The health board issue remains to be a big issue for our office. It looks like the way it's set up, from what we can understand in terms of the public explanations of the health boards, is that it will be a big bottleneck for our office over the next year and a half and then move out once the . . . or the initial part of the health boards is that the boards are going to be appointed by the government. When that happens, when it's appointed by the government, in terms of our legislation it becomes a Crown agency and therefore we have to examine it.

And so in that initial phase when the boards of directors of the health boards are . . . the majority are appointed by the government; we're involved in it. And in this past year we get directly involved in the Regina one, Saskatoon one, and the Prince Albert one, and now there's more formed. So this next while will be quite interesting for our office.

At some stage — and the initial target that I've heard that has been explained to me is that October '94 the boards at that time might move to elected boards where the majority of the board members would be elected. If that happens, then they are accountable, more accountable to their . . . or directly accountable to their constituencies. And our role then backs away when that happens, or if and when that happens.

So that's an interesting event for our office to handle. Examining Crown corporations more directly is also an issue that has . . . an initiative that has moved forward in a marked way. We're now, as you know, examining the Crown Investments Corporation directly so they are not appointing an auditor that we have to work through. The Liquor Board approached us and asked us to do the same, and we're doing it there. And we're also carrying out some work at SIAST (Saskatchewan Institute of Applied Science and Technology) because of concerns that were expressed to us.

The cross-government issues continue. The economy efficiency issues, the special assignments, that special report back in April when we provided that special report, April of '92, and then the subsequent meetings with the Public Accounts Committee — that was a lot of work from our office and affected the work plans of our office. And also advising the Crown Corporations Committee in a more proactive way was an important initiative.

So those are some of the kind of issues or challenges that have affected our life, our exciting life as accountants and auditors that — I'm sure Gerry can attest to — has many, many moments to it. He nodded.

The organization of our report then, our report reflects the results of our work, primarily on the year end '91-92 of the government. And most of that work would be carried out in late '91-92 and also in '92-93, and it focuses on issues that we think should be brought to your attention. As I mentioned, each of the more specific chapters provides assurance but then it also focuses on issues.

The report is organized. Chapter 1, as I mentioned before, sets out general observations and key issues in a more cross-government way that I think need to be brought to your attention. And that's done near the end of preparing the report.

Chapter 1 to 8 are in general cross-government issues; chapters 9 to 21 focus on departments and the organizations those departments and their minister are responsible for; and 22 to 28 focuses on specific, standalone government organizations, and generally those organizations have separate legislation that forms them.

The appendices, appendix 1 is a report on the work of our office. Appendix 2 contains the reports of appointed auditors. The first part explains where or sets out the lists of organizations where appointed auditors have advised us. There's nothing of significance to report to the Assembly and so we report that in appendix 1.

Appendix 2 sets out those organizations where the appointed auditor has said there are issues that should be brought to the attention of the Assembly, and their reports are reproduced in that appendix and they also are incorporated in the chapters of each of the departments that their comments relate to.

Appendix 3 lists those organizations that we haven't completed the work as of February 28, which is our cut-off date for this report. We have to establish a cut-off date for each of the reports, otherwise you never get done. And appendix 4 we looked at before; it relates to the examples of the three opinions that we form on each of the government organizations we examine.

Paragraph 5 supports chapter 3 on the Financial Management Review Commission, and it sets out an analysis of each of the recommendations of the commission and the status of those recommendations and how they've moved forward. And appendix 6 will relate to the work of this committee and the status of the recommendations of your recent reports. So that's the organization of the chapter . . . or of the annual report.

Moving to chapter 1 . . . Before I go to chapter 1, are there any comments on what I've just went through which deals with the organization of the report, how we got there, the types of examinations, some of the key priorities and challenges that we've moved through during the year?

Okay. If not, chapter 1. So as I said, chapter 1 sets out general messages that I put together near the end of preparing this annual report. I also do just a general, in my view, my general impression of how things are moving along during the year. And as you can see in paragraph 3, I do view and I still hold this view that on the whole that the system of public accountability, which means the accountability of the government to the legislature, is improving, which to me is an important comment.

And then I go through why in a general sense I see that happening. Again the summary financial statements is an important initiative. There's the CIC financial statements is an important initiative. The October 31 *Public Accounts* being issued in a more timely way, and now even being required by law to be issued by the end of October 31, is an important initiative. There are more financial statements of all the Crown corporations and the subsidiaries now being tabled.

The more rigorous accounting policies being used in the budget. The Financial Administration Act — I don't know if it's been passed yet or not; it has? — it actually requires the preparation of the estimates in the budget following accrual accounting, which again in the exciting world of accountants and auditors is a significant step — a very significant step — that I think will come to play and over time will provide you more rigorous, reliable, credible information to base decisions on. And also the accounting policies used within the financial statements of the government are getting far more rigorous, which to me means steady progress has happened.

Of course on the side of progress has been made, we also identify in chapter 1 where there are some significant issues that still need to be addressed. In the summary financial statements, the $3 billion pension liability is significant and needs to be reported in a more complete way. On the positive side at least, people know about it, as far as I can see. The legislators and many of the commentators at least know that that's part of the financial, the state of finances of the province. Certainly all the credit rating agencies and bond rating agencies and financial commentators know that they have to add that to the mix when assessing the state of finances of the provinces. And the next step would be to record it.

And I understand that a pension commission is supposed to be formed to study this matter. I haven't heard of it moving forward. There's lots of other issues related to pensions than just making sure that it gets reported in a forthright way.

There's, for example, in our chapter on SaskPower, we note that some of the pension plans, the assumptions used in preparing the estimate of what you owe, what the province owes to various pension participants, the assumptions are inconsistent.

Now that's a major issue that needs to be examined by such a commission, and certainly we're going to look at it more carefully because we didn't know that that was the case until quite recently. And also some of actuarial evaluations that are in place for some of the pension plans were not very up to date but now are getting far more up to date.

I've always thought in a general sense that once you get through sort of the state of finances issues that we have trouble with in our province today, that the next big issue will be these pension plans. And I see it happening right across the country as these issues come forward in terms of understanding what the pension promises are and also their costs.

The Chairperson: — Can I interrupt on that because I had questions on that. How do you deal with accrual accounting on a pension liability that was established as the pensioner became a part or a participant in the pension plan? How do you measure that in an accrual accounting basis? Or can you?

Mr. Strelioff: — Certainly you can. Accrual accounting, in a general accrual accounting the principle behind it means that on the expenditure or cost side, it tries to reflect what the cost of the services that were provided to you in the period. That is where accrual accounting is trying to move to. Once the cost . . . tries to estimate the cost of providing a service or buying goods that were purchased, used during the period.

Now you relate that to employees. Part of the cost of an employee is the pension benefit that employee earns during the period. If you notice in the chapter on Department of Education, the actuary's estimate that the teachers' pension costs about 24 per cent of their salary. So you start off with their salary of $100, while the cost of their pension promise, earned pension benefit earned during the year for their pension plan, is approximately 24 per cent of their salary.

Now the accrual accounting then says, well how do we estimate that cost. So the actuary, in his or her world, comes up with a way of estimating what the cost of that benefit is. They've estimated for two teachers that the cost is about 24 per cent.

The Chairperson: — Is that the total . . . that's the participation by the individual and participation by the government, right?

Mr. Strelioff: — That's right. The 24 per cent for teachers — just to use that as an example — I think the contribution rate is approximately 8 per cent by the teachers. The teachers are required that they deduct from their pay stub 8 per cent and contribute that to the pension plan. Now the pension plan is a defined benefit plan which means that the government is responsible for the rest, the 16 per cent.

Now as a funding practice, I think the practice of the government is to contribute each year a matching contribution of about 8 per cent. So what goes into the pension plan in a general sense is 8 per cent from the teacher, 8 per cent from the government, as being the employer, which equals 16 per cent.

But the cost is 24 per cent which means, in a general sense, that we're never putting enough money in the plan to cover the cost of the pension benefits earned during that period. As a result, the unfunded portion of the pension plan grows and continues to grow as that happens each year. And in a general way or a general calculation, I think the latest estimate of the unfunded portion of the teachers' pension plan is about $2 billion.

Now I can't remember how much money is in the teachers' pension plan. Does it have that in that somewhere? In terms of . . . if the $2 billion is unfunded, how much is in there right now? Maybe a billion, maybe . . . $798 million it says to the end of '91 approximately. So that's the status of it.

Accrual accounting would attempt to measure the pension benefit earned during the year. It also is to estimate where you have an unfunded pension liability. There is interest that's accruing on that unfunded pension liability, and that would also be incorporated in the measure of what the cost of the pension plan is to the government during the period.

Now I'm not sure how soon the government's going to move to incorporate what is fully meant by accrual accounting as it relates to pension costs and benefits. I'm sure that's still being discussed within the government on how best to move it forward. At least I can report now that more and more so the information's on the table. People have more access to it, and you can adjust the financial results to incorporate the results of the pension promises to all the employees.

Would that answer the question about accrual accounting? Accrual accounting does handle the cost of pension benefits earned during the period and should therefore be incorporated as a cost of . . . as an expenditure during the period.

The Chairperson: — To just make it a little simpler for me, would that mean then that the payments into the fund by the individual and the government should be reconciled with the payments out? Since you're dealing with an individual paying in and someone else taking it out, is that a matter of where the accrual doesn't occur to the individual but it occurs to the fund?

Mr. Strelioff: — Okay. What you're discussing there is the difference between measuring the cost of the pension benefit and keeping track of when the cash goes in and when the cash goes out. The accrual part is . . . the focus or the purpose of the accrual estimate of the cost of the pension benefit is to ensure that the cost of government services are fully reflected during the period they're incurred.

Now as a separate decision the government has to decide as a manager and with the legislature's participation, on whether if there's a hundred dollars of pension benefits earned during the year, should they put cash into the pension fund equal to that hundred dollars. Or should they put $50 in? Should they put zero dollars in? Or should they put the full hundred?

Now that's a cash management decision that the government has to decide upon. When I talked about the teachers' pension plan, the government management strategy, and I think it also has some legislative links to it, the strategy was in a general sense to provide two-thirds of the cost, the accrual cost of the pension benefit earned. Two-thirds of that money would be funded, would be put into a pension plan each year. That was the cash management strategy, I guess, of the government.

Now once the pension plan is turning around and earning money, it's managed by the Investment Corporation of Saskatchewan. That's the government-control led corporation that manages those monies. When someone retires and draws upon their benefit, that gets reflected in the financial statements of each of the pension plans and will reflect that the pension plan fund balance has been reduced by those payments made to retirees. It does not impact the cost of the pension benefits earned during that period, because the cost of pension benefits earned during that period in a general sense are being earned by people who are working now; they're not retirees yet.

So the cash management in terms of withdrawing money out, comes to play for retirees. There's all sorts of exceptions to all these things, but in a general sense that's how it works.

So the accrual accounting is trying to measure what the cost of that pension promise is. And then the cash management that the government has to manage very prudently and wisely and carefully is to manage the pension plan and make sure that the investment strategies are reasonable, and also to ensure that there are sufficient funds in those plans and funds to provide for retirees now and in the future. And that's a specific financial cash management strategy.

And the cash management strategy of each of the jurisdictions across Canada varies. For example, the Government of Canada also has employees. Their pension plan is a defined benefit plan, in a general sense, in almost all the employees that they have. And they reflect in their financial statements, as an expenditure, the full cost of the pension benefit earned during the year.

They don't fund anything. There's no pension fund. There's no pension monies put in a fund for federal government employees like we do for the teachers, for example. And so when they have to pay employees, retirees, they have to manage their cash in a way that they can do it because there's no cash pool growing there for that purpose.

That was a cash management strategy used by the federal government. Maybe they thought that the government should have access to that cash rather than a pension plan. I don't know what the particular reasons were for that strategy, but that's the case.

And they have about, approximately $100 billion pension . . . When the government says it has about a 400, $450 billion deficit, about — about $100 billion of that relates to the pension liability to their employees.

Now in Saskatchewan when we talk about our accumulated deficit, which in chapter 2, I add the pension liability to it to move it up to $9.1 billion, $3 billion of that relates to unfunded pension liabilities. And I think there's about $2 billion of funded pension liabilities that are not in that equation; the liability relates to the unfunded portion.

So in the federal government the liability is about 100 billion. And why did I answer that question? What was the question that led me to that?

The Chairperson: — It was the question on how the individual who has the payment to the plan and then another individual has the money being taken out, is it in accrual accounting, the decision to offset the income with the expense? Or is it the pension fund that has to do that? Is it the individual that that accrues to, or is it the plan that it accrues to? Maybe that isn't going to bring it back to you.

Mr. Strelioff: — One of the issues there, when I talked about keep it with the teachers' pension plan, the income that is earned within the pension plan, within the pension fund, does not in a general . . . it does not affect the pension promise to the teachers. So the assets that are earned in that plan, because it's a defined benefit plan, the promise to the teacher is something like, we'll provide you 70 per cent of your final five years of earnings until you die. That's not affected by how much money the pension fund earns. That's a promise, a defined benefit promise.

And the income, whether the pension fund is earning 15 per cent or 2 per cent, doesn't affect the promise. What it affects is where the government is going to get the money to pay that promise. Is it going to get a lot of it from pension fund investment earnings? Or are they going to have to supplement those earnings with more direct contributions?

Now the government also has many defined contribution plans, money purchase plans. Now those are separate from defined benefit plans. And in actuarial jargon what they usually say is the risk on a defined benefit plan, the teachers' plan, the risk is to the employer, the government. The risk on a defined contribution plan, the money purchase plan, the risk is to the employee.

Now the risk means, directly related to what I said on investment earnings, that on a defined benefit plan the government, the employer, has to make good that promise — 2 per cent or 70 per cent times the average of the last five years earnings, regardless of what happens to the earnings in the plan.

On a money purchase plan, I don't know if . . . some of you probably participate in it. I do — 5 per cent we pay, 5 per cent the government pays. And whatever that money can earn over time, you get. You don't get anything more. The risk is on you, on me. If the investment returns are only 2 per cent, too bad; that's all you get. If the investment returns are 17 per cent, whoopee! — you've done quite well. But the risk on that plan are the participants, not the employer.

And I know many employers over the last five years have tried to — private sector and public sector have tried to switch to money purchase plans because they're less expensive. For example, think of the teachers' pension plan where I said that the cost is about 24 per cent — according to the actuary's estimate, 24 per cent of their annual salary — while the cost on the money purchase is 10 per cent. Those kind of comparisons work in a general way for general understanding. There's always specific issues that kind of confuse those kind of comparisons, but in a general way that kind of general comparison does work.

And that's why employers, if given the choice in most cases, would rather move to a money purchase plan because it's less risky to them. It's also in a general sense for the employee more portable. You can take them out and move, take your money when you retire or move away from the employer and move it into an RSP (retirement savings plan). And the portability has a great sense to it, particularly when your employment life in an organization is likely to be not very many years, which many people have that circumstance.

So did I answer the question? Gerry says yes. Okay.

Mr. Cline: — When you talk about an unfunded liability for the teachers' pension plan for example, I'm interested in how that amount of money is calculated, for this reason — that that is a liability which will accrue in the future. I mean the future could start tomorrow in some cases and 20 years in other cases, I guess.

Like how do they calculate that? Is it calculated in sort of absolute dollars in terms of what has to be paid out or is there a capitalized sum that they arrive at on the basis of actuarial analysis?

Mr. Strelioff: — It's a present-value calculation. And just to use the example of one employee that . . . Me. Say I'm in that plan — I'm not, but say I am — and that I'm going to retire. I'm 42 — 41, 42 next month — so I'm going to retire say when I'm 65, 23 years from now. And there's no money in the plan; it's just a liability.

So what the actuary does, he'll say, or she'll say, what amount of money do we have to put in a fund right today to reflect how much I've earned over my past two and a half years working for the Assembly? So that's a present-value number. They'll say, okay, we need to put in $2,000 today so that at the age of 65 Wayne gets his pension benefits earned for those two and a half years, but payable 23 years from now.

So the $3 billion is not in the amount that's payable 23 years from now. It's in the present value of the amount that needs to be put away now. In an accrual sense, it's a reflection of the pension benefits earned during the period which are discounted present value of the money that you have to put in now to fund my retirement at 65 and reflecting the pension benefits that I've earned to that, to the accounting date, to today. Next year I earn some more, and that next year on an accrual basis the actuary will try to estimate, okay, what's the cost of that pension benefit earned.

Now in determining how much I'm going to get paid at the age of 65, the actuary has to estimate what my salary is going to be. Remember most of the defined benefit pension plans are based on your last five years earnings. So the actuary has to estimate what the rate of inflation is going to be over the next 23 years and also what salary increases are going to be. And the estimate usually is — from the actuary reports that I've read — is a per cent or two above inflation is what they estimate over the long term will be the norm on salary increases, and that's over 60-year periods.

And then the actuary . . . So that's one estimate the actuary has to make. The actuary also has to estimate how long I'm going to live after 65. And they have standardized mortality tables that are used by the actuarial profession. And they also adjust those tables to different kinds of death rates in what that call cohort groups, just groups of people. Perhaps teachers — and I think it's true — I think teachers have a longer expected life expectancy than perhaps comptrollers. I'm sure that must be the case.

Mr. Kraus: — That's true. And in fact it's compounded because Saskatchewan people live a long time too, and teachers also live, as a group, a long time. So between the two, they do live a long time.

Mr. Strelioff: — And when there's money in the pension plan, the actuary also has to estimate over the next 23 years how much . . . what's the investment return's going to be for those monies. And there's two main components that they deal with. One is the inflation, because investment returns usually have two main components: your inflation rate and your real rate of return. And they'll try to estimate that over the next 23 years and to come up with how much money do you need now, say, to fund Wayne's earnings, pension benefit earnings, this year, last year. And it's a present value.

So in a cash flow sense, which I've never seen for this province — I've never seen a cash flow in absolute dollars — what the estimate of the cash requirements will be. They'll be probably quite a bit. Those cash flow estimates are there, are around. I don't remember looking at them myself. But those would be in absolute dollars rather than present-value dollars. So the $3 billion is a present-value estimate of what we need right now to pay for what we've already received.

Mr. Cline: — The line value has accrued the future liability.

Mr. Strelioff: — Yes, through to this date.

Mr. Cline: — The next question I have is, is there. Okay, if the government, instead of putting that capitalized sum into the pension plan to meet the future liabilities is refraining from doing that, then is there an advantage to the government in the sense that the government also is not paying interest on the money that would be put into the plan, if you see what I mean?

In other words if you calculate the capitalized sum that you would need to meet all future liabilities based on the actuarial estimates and you put the money in, then you've met the liability. But in the present circumstances of the province, the province would have to borrow all that money.

And I'm wondering if you can comment on whether there's a difference between a situation say where we were flush with money, so we put the money in, and a situation where we're not flush with money, so we would have to borrow the money to put it in.

Mr. Strelioff: — It's a very tough question, because it's one that constantly comes up in debates on cash management, strategy, and what's a prudent way of handling your finances. And there's very varied views right across the country on this and there's different practices.

I assume that one of the . . . let's see, just to put it in context. We have about a $5 billion pension obligation at present value. We funded about 2 billion, so we have $2 billion in pension plans. And we have an unfunded portion of 3 billion. So we've made a decision that we should be funding some. And I guess in a general sense we've . . . say 40 per cent. For some reason we thought 40 per cent of our pension obligation should be funded and the 60 per cent shouldn't be.

Now why did we do that? And should it all be funded? Should it all not be funded? I've heard strong arguments on all sides of this agreement.

just to provide some arguments for and against, and some practices. Ontario had over a number of years — say to about '87 or '86 or '88 — had not funded any of its pension obligations. It had recorded that it owed a significant portion of it. But it had . . . Then in '87-88 it decided to begin to fund it. To begin to fund they started prospectively starting with — well let's begin to fund this year's earnings and set it aside. At that point in their history, they were in a general sense, as you say, flush with cash and were looking for things to do with that cash, and decided that one of the prudent things that they thought was appropriate to begin to fund it. So that was one signal.

Now Canada, the Government of Canada I guess, in a general sense, hasn't been flush with cash for quite a while and has never taken that step. Saskatchewan back in '81 or '82 or '83, whenever they changed the pension plan and moved it to a money purchase plan — '77-78 — at that moment had decided that it is a prudent cash management practice to begin to fund. Not only did they begin to fund, but they also began to limit their exposure to risk by moving to a money purchase plan.

Mr. Kraus: — The main reason for that plan actually — and the auditor's been explaining it very well — but I believe the main reason was one item you mentioned earlier, was the portability was concerning some of the elected members. They saw people retiring who had worked 35, 40 years, but for quite a few different organizations and they didn't have anything to retire on. And they felt that with people moving five and six times, perhaps it was a good idea to have a plan that had this portability feature. So that's why they moved to it.

Mr. Strelioff: — There's another . . . the portability part is an important mix on exactly what you do. So in terms of flush with cash, in terms of not flush with cash, it does seem to impact what particular governments do choose to do. In general, I sense a general trend for governments even in more difficult times to still to want to be able to put more money aside. It's not that easy, but it does seem to pay off over the longer term.

There's also probably a philosophical debate on whether if you're going to raise the cash to put money, say $3 billion into your pension plan, pension fund, you have to raise that cash from the economy. And I suppose a part of the decision of that is that it's a pretty tough decision to make, but is the money best left in the economy in a very decentralized way, or is it best used in a more central pension plan where you can centrally influence the economy.

Now you watch Quebec. Quebec has what they call caisse de dépôt which manages their pension plans. And in that pension plan are public sector pension plans, including their version of the Canada Pension Plan which is the Quebec Pension Plan.

A number of years ago they decided, when the Canada Pension Plan was struck, not to participate but to strike their own similar plan and manage the monies on their own. They combined those monies with monies from their employee pension plans and put it in one pool and now have, I don't know, about 40 to $45 billion of investment funds which they manage. And to a greater or lesser an extent seem to also. . . are directing part of the investments. For example, a lot of the money or a certain portion of the money seems to be said to be reinvested in Quebec, and they've chosen that as a strategy, a strategy of . . . There's a strategy of cash management there. There's also a strategy of economic development and general financial management.

There's no doubt there were a lot of factors to play in developing that strategy, and it's . . . There's no magic answer to whether you put a whole bunch of money in, whether you fund your unfunded liability or not. And you'll get economists and financial managers are doing all sides.

Mr. Cline: — I guess that's sort of the point that I was getting to, that there's no simple answer to this. I mean you can recognize the unfunded liability of your pension plans and you can try to lessen the growth of them to moving toward money purchase plans which I think in some cases the government has done — but you can't . . . you can't treat the matter as one simply of, well it's a debt that we have to pay right away, because that may be the worst thing to do.

And I mean reasonable financial analysts would have differing views on that, but certainly I appreciate your comments on that because it's a very difficult issue, I would think, and one for which there's no necessarily obvious answer to.

Mr. Strelioff: — Yes, and it isn't very obvious. The governments that I have seen that have begun to wrestle with this issue have done it over a long term. They recognize they just can't solve it overnight.

And what the . . . for example, the Ontario strategy, of let's start now with the pension benefits earned this year and begin to build a pension fund for those benefits, and then they've also put in the mix of that strategy, let's begin to address the unfunded portion over I think it's about a 20-year time period where they're trying to catch up with that unfunded portion.

And no doubt they have to revisit that strategy every year, depending on changes in the economy and changes in different financial management strategies that the government's come to the table with.

The Chairperson: — I think that we could conclude our discussion today with some of the observations that I made to you earlier regarding our format for the future. What would you consider as an expeditious kind of a way of handling this? Do you want myself and Mr. Cline and Ms. Haverstock to deal with this in a way that would solve the problems, or do you want to discuss it here? What's your observations?

Mr. Serby: — My recommendation, Mr. Chairman, would be to leave it to the chair or the vice-chairman and Ms. Haverstock to set the agenda.

The Chairperson: — Okay. And then we'll set the agenda. What I'd like you to do though is consider in the report those areas where you'd like to ask questions on. You can leave that with the Clerk if you want to, or you can leave that with myself or Mr. Cline — it doesn't matter to me — and then we'll organize our time scheduling. Think about when in September or October we'd like to meet and when in January and February we'd like to meet, if we need to after that. So put that into the framework of your thinking.

I think that what we will do, as has been identified this morning, there's certain parts of chapter 3 and chapter 4 that deal with the special report on the two items that we have left to deal with. And as the auditor has mentioned, he can probably bring them to our attention, if we neglect that, and then we'll deal with them and finalize that first as we come to them. Then we'll deal with the report on an ongoing basis.

Mr. Sonntag: — Are we to assume then that unless circumstances change, we're meeting next Tuesday at 9?

The Chairperson: — Yes.

Mr. Sonntag: — Okay.

The Chairperson: — And you'll be notified one way or the other.

Mr. Cline: — As you said, Mr. Chairman, I think it would be helpful if people had a look at the report and identify to you or I areas where they would like witnesses called with respect to an agency or department so that we could plan the agenda accordingly, in consultation with Ms. Haverstock, too.

But if you people could think about where they think we should have some witnesses, I think that would be very helpful. And this gives people a week to think about that and maybe we can do some agenda planning next Tuesday, too.

The Chairperson: — Why don't you raise that as an observation if you'd like to participate.

Mr. Strelioff: — Mr. Chair, members, I just asked the question to the chair on when you are setting your agendas and who you'd like to bring to the table in terms of witnesses and other views, I asked him whether he thought it was reasonable that when you do meet that I attend and that if you have any questions on the content of specific chapters, I can answer those questions. And also just for me, be better prepared moving into each of the chapters.

The Chairperson: — What I'd like to do is to prepare an agenda that deals with the various items and then, as they've been raised with members of the committee, have that on the schedule, and then you'd be aware of all of the items. I don't see that you're being excluded from any part of the committee. That isn't, I don't think, what you meant here, but I gathered that Mr. Van Mulligen was maybe perhaps a little concerned about that.

Mr. Van Mulligen: — understand. You're here for all the meetings.

Mr. Strelioff: — I thought maybe it would be a benefit to me and perhaps to Mr. Cline, Mr. Martens, and Ms. Haverstock that when they do set the agenda, discuss the agenda, that if they have any questions on the content of any of the chapters, that that might help them set the agenda. And so I just offered any assistance that they might want.

The Chairperson: — That's agreed. Okay, we'll put together . . . Keep in mind the things that you want to ask questions about the various departments. You'll probably have special ones that you want to think about. And then we'll put the agenda together in an over-all way, and then we'll itemize it as we go through it.

We will tell you for next week what our next items will be, as Mr. Cline and Ms. Haverstock and I discuss it.

I'll entertain a motion to then adjourn. So moved.

The committee adjourned at 10:18 a.m.