The Chair: — Good morning, gentlemen. We have a number of topics. I've circulated the best guess that Mr. Sonntag and I were able to come up with over an agenda for the next three or four weeks. And I hope you can appreciate it is the best guess, but it gives us at least some idea of what order and when we may be ready to invite officials to our deliberations.

Without any further comment, I believe we're ready to proceed with item G.

Mr. Sonntag: — Yes, if I could, I just wanted to suggest, further to the discussions you and I had in the House the other day as well, with the protocol agreement we have in place, I'm wondering now that the 1996 spring report's been released, if we could have . . . I know in our discussion we had said possibly Provincial Auditor's office. But I don't see why it couldn't just be the secretary, Gregory, just to put in place the actual recommendations versus the . . . (inaudible interjection) . . . Oh, okay, sorry. It doesn't matter to me at all. I don't know what is appropriate but at least if they were outlined in more detail for all the committee members.

The Chair: — That's those sections that just referred to the spring '96 report. And without having any details and recommendation numbers listed, maybe we can expand our protocol agreement document to include those items now.

Mr. Black: — . . . did put it on the schedule I believe, Mr. Chair, was to indicate to the . . . (inaudible) . . . the 1996 report. And that's how we will present them in relation to the chapter in the 1996.

The Chair: — I think what Mr. Sonntag was asking for is that we would do it similar to what we had the item just above that you referred to, where for example it listed in detail a recommendation .19 and said that that recommendation is referred to in the fall '94 report, '95 report; that we do that same kind of process with the '96 spring. So like for example, on information technology, there was a dozen or so detailed recommendations made, that each of those dozen would be individually listed as we did here.

Mr. Black: — From the prior reports.

The Chair: — No, from the '96 spring reports.

Mr. Black: — The '96, okay.

The Chair: — Because it's just listed in summary now, that we list them in detail as we did for the '94 and '95 reports.

Mr. Sonntag: — Yes, that's exactly . . . Then also if there is some duplication with prior reports, that that would be noted as well just in the recommendation or in the comment section there.

Mr. Black: —Okay.

Mr. Sonntag: — I mean we'll be doing that as well, but I think for all committee members it would be easier just to follow it that way.

The Chair: — All right, are there any other comments that anyone has to make before we begin? If not, I'd like to ask Mr. Wendel to introduce his officials and guests and lead us in the discussion on item G, information technology risks.

Mr. Wendel: — Thank you, Mr. Chair. Today we have two people from our information technology division to give their presentation on chapter 4. We have Phil Creaser next to me here, and Victor Schwab will join Phil up here. I'm going to go over there until the presentation's done.

Mr. Creaser: — Thank you very much, Fred. I'll see now if the technology actually does work. Okay, so the first step . . . well thank you very much for this opportunity to come and speak to you today about information technology and its risks and some of the things that we've reported in our fall of '95 and the spring '96 report.

Why do we do these chapters, I guess would be the first question you'd want to know. And I think it started with our long-term strategic plan, that we wanted to introduce more areas of significance and risk that we could identify in the government environment to the public and to the legislatures, and we were going to do that through our reports. And in the information technology group, we identified system development and security as the areas that we felt that were the highest risk to identify and that we should be talking about them a little bit and getting people aware of some of the issues out there.

One of the reasons that we are concentrating on the development controls is that we felt that there's been a big movement over the last number of years away from the mainframe environment, which was the traditional computer environment where it was sort of closeted away in a nice, secure building and with lots of controls around it, to more of a client server that you may all have had a little bit of experience with in seeing a server in your office and computers on everybody's desk.

That environment is just in the development stage and it's not as secure and it's not . . . the processes around, the developing systems on those environments and the security around those environments, isn't quite as secure or as mature as it is in the mainframe environment.

So we thought well, that's a risk that we should identify and let people know that we're concerned about it and that we're going to be looking at that over the next while.

The other is that there's a lot of money being spent on technology and the costs of technology are high. The departments that we surveyed I think alone spent over $40 million last year on information technology, which is a fairly substantial amount of money. And there's some development processes going on now that are going to be very expensive. So we felt we should be identifying these risks now and then letting you know that we were going to be looking at how well they're being managed.

Finally, security. Everybody has heard a lot about viruses, hackers, and copyright issues out there that — I think the new term is freakers — that we were talking about this last couple of weeks. There's a lot more vulnerability in your systems as people try to break in and we start going on the Internet and start getting information out to people, because we want to get information, more information, out to people.

We also have to accept that there's a certain risk to that, and of course the public fear of information technology. We just want to give them some confidence that the systems are a lot more secure than they might think they are.

The first area that we concentrated on was system development, and in identifying the risks of development, we felt that we should come up with some cornerstones to what we felt were help in the development of new systems to ensure that they're adequately developed and adequately thought of. The first cornerstone would be management commitment. If the department or agency is going to develop new systems, they should be based on the business plan of the organization and the goals and objectives of that particular organization.

When they go to the second step, when they look at the need, then they have that plan to say well, that's the most important thing that we should do and we should only do that. It's like building a building or something. You're not going to build a building unless you really need it. You're not going to build a new information system unless it really meets the needs of the organization and it's going to make your organization much more efficient.

And finally, project management standards. We want to ensure that people have a process in place to manage the development of the system once it's been selected; that they have an adequately trained project manager, they have adequate practices in place; and they also have things like budgets, deadlines, and dates, so that people can see when the project should be completed. Most of the studies we've seen, over 80 per cent of the big systems that are developed are late, don't meet the users' needs, and in some cases fail entirely.

So for new systems we want them to meet the system needs, the business needs of the organization. We want to ensure they have integrity, that people are confident that information there is right. We want to make sure that the information is confidential, that only the people that need access have access. This seems to be an issue in health and in education. Also that they run all the time. We want to make sure the systems are up and running; they have adequate contingency plans and backup and recovery procedures.

The last three points are sort of an introduction to our security chapter, that's the chapter that we concentrated our efforts on today; it was a new chapter in the spring report on information technology security.

When we did this, we talked to the RCMP (Royal Canadian Mounted Police) because they do a lot of the security reviews on the federal level. And their major point to us was the first one here which says, without policies, there's no security; that if you want to look at security, look first at the policy and procedures that are in place and then worry about how well they're implemented afterwards. So that's the gist of what we're doing with this particular chapter, is looking at policies.

To do that, we again looked at what would be our primary criteria or cornerstones for security and we came up with six. Victor will expand on these when he gives the . . . discusses the recommendations in a minute. But the major ones were management approval, that we want all policies to be written and approved by senior management in the organization.

We want accountability; we want someone in senior management responsible for security and making sure that's it implemented properly so they can balance the program needs with the actual security needs that the information technology group may have.

We want to ensure that the staff are adequately trained — the training is critical — and they understand security and what the security issues are and what systems have to be protected. There's an administration function to ensure that all the computers are adequately safeguarded, that the computer room is locked, that people are putting their laptops away. We've been getting some messages recently about laptops going missing or being stolen. So computer administration is very important.

Protection — we're talking about password protection and some more sophisticated types of protection techniques — there we're looking at wanting to ensure that people classify their information and their data and their systems, and then they adequately protect it.

And finally, availability. We want to make sure that your systems are up. That management does an adequate risk analysis to determine how often they need their systems, how long they can afford to have them down, and if they have a plan in place in case of a minor or a major disaster.

Okay, when we did the security review, we did . . . instead of doing what we call a traditional audit, we did a self-assessment survey. We sent out a survey to 15 departments and we asked them questions about their financial and non-financial systems and how they managed security, and we based it on the six criteria that I just finished going over with you. So the major point here is that it wasn't really an audit but they had an opportunity to challenge the process.

What we did was we discussed the plan with the System Management Council, which is the group of individuals that manage the computer systems in the various departments and Treasury Board Crown corporations. We then, once we discussed the idea with them, we sent the draft survey to the System Management Council and the comptroller's office and the Provincial Secretary to see if they felt the survey was fair and comprehensive and then we sent the final survey out to the deputy ministers to have the survey completed. And that was done in June of '95.

In the fall of ’95, we compiled the results and presented them in this spring’s chapter. Once the results were compiled, we sent them again to System Management Council, Finance, and Provincial Secretary to see if they felt they were reasonable. And we sent them to the departments to see if they agreed with our findings.

What did we find? In most cases it felt that the organizations identified over 200 systems in the 15 departments, and 80 per cent of them were critical to their operations. They rated themselves as having good security. The results of our survey . . . we felt there were areas for improvement and we’ll discuss those in a minute. The practices varied widely as far as how security was administered and managed in the various departments; and that we felt that one of the more important recommendations was that management needs better information to assess how well security is managed in the various departments.

Just finally, the final thing was that we . . . just some of the general comments we got back on our draft chapter from groups, was that they generally agreed with it. They felt that the security was important and that the recommendations were fair. They were concerned about, well, what about writing volumes and volumes of policies and procedures. And we said, well we wanted to keep it as simple as possible so that it’s something that you can manage; the people will do it fairly and do it completely; and they’ll be able to train people with it. But we don’t want volumes, we just want reasonable and fair policies.

And there were some concerns about why did you limit your survey to just IT (information technology). Why didn’t you look at all security issues out there? What about paper security and what about contingency plans for the whole organization, not just the information systems? But we had to scope it to a certain degree anyways when we’re doing these reviews. And so we stayed with the IT area.

I’d like to now introduce Victor Schwab. He’s going to go over the recommendations that we made and then we’ll open up for questions.

Mr. Schwab: — Thanks, Phil. Okay, as Phil said, I’m going to review some of the results of the survey, going over the six main areas. Just to explain the graphs, the bar signifies the number of departments that have complied with the respective requirement and it’s at a total of 15 departments.

The first area, security policies and procedures, we noticed that departments have some of the security features that we are looking for, but the key is to be consistent across departments. This graph is on page 39 of your report if you want to follow along in the report. It’s management’s responsibility for security. In order to do this they should be able to understand the risks and ensure approved policies and procedures are in place to minimize those risks. Without this it can’t be assured that security is adequate.

The second area is accountability for security. That’s found on page 41 of your report. There needs to be someone in charge of security. This person should be independent in order to balance security with the need to access the required information.

Another key area is that there should be periodic reporting to management on security issues to ensure that management is aware of whether or not security is effective.

The third area, security awareness, it’s on page 43. The most cost-effective way to increase security is through staff awareness. This would be done through providing staff with security awareness training. And the key point here is that if staff are made aware of the security issues, then the risk is reduced.

The fourth area is security assessment. That’s on page 45. We found that departments consider their security to be adequate. And as Phil mentioned before, our assessment, based on the responses, is that security can be improved. Again the key here is reporting to senior management. They need to be aware if policies and procedures are effective in ensuring adequate security.

The fifth area is confidentiality. If confidential data is not identified, it cannot be assured that it’s adequately protected. The greatest area of concern is who has access to data and programs. And this would include consultants, systems support, and other staff.

The final area is disaster recovery. We broke it down into two parts — disaster recovery for mainframes and for networks. These graphs are found on 49 and 50 of the report. Of the 15 departments surveyed, there were 10 departments reported using mainframes. By the graphs, it is clear that all departments reported that they perform regular backups and are able to recover from a minor disaster such as a disk drive failure.

More importantly, for major disasters, only a few departments have contingency plans. And of these that have contingency plans, by the results of the survey, we concluded that there could be some room for improvement in the contingency plans. The key with contingency plans is that there should be a risk analysis. Departments should determine how long they could survive without their computer systems and base their plan to recover within that time.

As far as what’s next, we plan to expand our survey to include other Crown agencies and we also plan to do a follow-up report in about two years to report on the progress of our recommendations.

The Chair: — Thank you very much, gentlemen. Comments, questions, discussion.

Mr. Sonntag: — Just to clarify one point, Mr. Chair. I’m assuming when we’re finished this chapter, we will have deemed to have finished chapter 5 of the ’95 report as well.

The Chair: — My reading of the ’95 report didn’t have recommendations in it but was sort of a general discussion that I think is pretty much covered off now in the complete ’96 report. So I think if we deal with the ’96 report, it will have completed all the issues in regard to the information technology.

Mr. Toth: — Okay, I'm kind of wondering in listening to this, how much time is spent just going over this security system you're talking about, and what's it going to take in the future? How much time is the auditor's office tying up — crucial time — going over all this information technology and security? I suppose there is a reason for it in view of the fact that everything is . . . or most government agencies are now going on computers and we find out that computers aren't as fail-proof or as safe as we thought they might be.

And I'm just wondering what you're anticipating the time that would be involved in your office just trying to follow up with what you presented to us here today, and what you foresee in the future as far as determining whether or not there is adequate security of accounting systems within government departments and offices.

Mr. Creaser: — Right now, we've probably spent about — doing the security survey and compiling the results — it was in the 4 or 500 hour range, as far as time, 4 or 500 hours. We anticipate spending roughly that amount of time in the next year, expanding our survey to other Crown sectors.

We're also looking at . . . We do a lot of work as well, as part of our regular audit work . . . is in our integrated audits we review computer environments in most organizations as well, so we're keeping an eye on security, especially on the financial systems. As mentioned earlier, we're expanding this to non-financial as well because we felt that there is considerable risk there.

The other aspect that we had, and we talked about in the first chapter or chapter 5 in the fall report, was systems development. And we're also going to be doing some projects in that area as well. As new systems are going on stream, our strategy is to start auditing those processes while they're being developed rather than after they're implemented because they felt it's too late then. So those projects will be fairly large as well, I think.

Mr. Toth: — Does this mean increased manpower in the auditor's office, and how do you cover that manpower? Are you able to cover that right now? Because of the fact we talk about operating within budgets and I think that's what you're . . . as a department, that's what you're talking about with government and all its related agencies.

And I guess what I see . . . when I first look at it, I begin to see, well we're just creating another make-work project basically and wondering whether or not we're getting value for our dollar, and not having the auditor's office come to government seeking more funds to provide the services that it's offering.

Mr. Wendel: — If I could, Mr. Chair, Mr. Toth. The resources to do this work is within our business and financial plan that we presented to the Board of Internal Economy and has been for several years, so there's no extra resources required for this. We think this is important, to look at information technology. We have for many years. Sorry, am I mumbling?

Ms. Stanger: — No, we can't hear you.

Mr. Wendel: — My voice doesn't carry well. I'm trying to get the mike and you.

What I was explaining to Mr. Toth was, we present a business and financial plan to the Board of Internal Economy, and we're planning to present it to this committee in the future. In that business and financial plan, we've included resources to look at computer technology, and we have for many years. There's a very substantial investment in computer technology and information systems, and I think we have to look at it. And we don't expect any additional resources required for what Phil has been outlining to you.

Mr. Toth: — So what you're saying, what you're providing here is just part of what you see as your mandate as the Provincial Auditor to make sure that the public in general are getting as up-to-date information, qualified information, and that the information that departments have is . . . as you were explaining a little earlier regarding all the security systems, that there is checks and balances in place to make sure confidentiality is upheld and that this information is just not widespread or totally available to anyone who would want to access it.

Mr. Wendel: — Mr. Chairman, Mr. Toth, I think that would be a fair statement. What we're saying is, we're required by our Act to make sure assets are properly safeguarded. Information technology systems are assets; we've got to look at them.

What we're presenting to you here is: we've looked at information security over those assets and we think there's some room for improvement there.

Ms. Stanger: — Thank you, Mr. Chair. Does the auditor feel that having a senior manager for IT separate from operations and programing, is it feasible in light of downsizing of most departments? Is it feasible and practical in the light of our downsizing, I guess I should say.

Mr. Creaser: — Yes. We think that even — and more so — in the times of adjusting programs and adjusting processes to be more secure or to be able to run effectively with less manpower, that IT security becomes that much more important. It becomes a management risk that senior people in the organization must be aware of and they must ensure that it's being properly looked at.

The reason for senior management is to say well, if you've got programs in place, that you have make a balance between having too much security and not enough security. And you have to be able to have people that are aware of what the programs are there to deliver.

You know a good example might be health. I mean if you've got to make decisions on how much information you want the public to have, how much information you want the doctor to have, how much information you want various people to have, well an IT person that's sitting at a middle management level may not be in the right position to make those kind of decisions and trade-offs.

So we think that security is a critical part of the risks of an organization and that it should be managed by someone that's senior within the organization.

Ms. Stanger: — What about the downsizing of departments? Do you think this is going to be much of an added cost?

Mr. Creaser: — I don't think it should be an added cost. It's a question of who is ultimately accountable. I guess from a department's perspective the deputy minister is always ultimately accountable for his operations, and so that person would have to determine who should be responsible for the security of their programs and their information. It's not just IT, it also encompasses their whole business and we think it's best handled at a senior level.

Ms. Stanger: — Thank you.

Mr. Sonntag: — Thank you. I certainly think that as the technology changes, we have to be ever mindful of security. And I think that it's very, very important. And what you have done is interesting.

I have one comment, that when I referred to chapter 5 that it concerns me a little bit, and this will be the only negative comment I have for the auditor's office today in this chapter, Mr. Wendel. I think in . . . I'm referring to chapter 20 on page 60 where they say that if security is poor, Crown agencies run the risk of incurring financial losses or being embarrassed. And I think that statement is, to me anyway and I might be way off base here, but I just think that goes entirely outside of the Provincial Auditor's domain to make comments as to whether or not departments or agencies are going to be embarrassed by security breaches. I mean I think they know that they would be, and to me it's the auditor's office taking ownership and management of the department. And to me it's just outside of the auditor's domain. So I don't know if you want to respond to that but I did want to get that on the record.

The other thing that I'm curious about is, do you have in your audit, have you found any problems with the information technology that now exists, any security problems, specific problems that you actually found in your audit?

Mr. Creaser: — On the second question, this survey was designed to identify management practices. We didn't actually . . . we haven't gone down and for a lot of these systems, looked at the detailed security. We do look at the security over financial systems on an ongoing basis, and we found that in most cases we felt they were adequately secured.

We have had instances though where we felt that the controls certainly could be improved; that there were certain risks with inadequate password protection, for example, is probably the classic. And then also we know that the availability issues are very real out there. There's not many departments that actually have good contingency plans in place. So there are some security risks out there.

Mr. Sonntag: — It's my understanding that the Intergovernmental Affairs office has an information technology unit in place. How much work did you do with them?

Mr. Creaser: — When we refer to the Provincial Secretary on here, that was the work of that group. So we talked to Kent Smith on a number of occasions about our strategies and what we were doing, and he thought it was consistent with what they were doing as well.

Mr. Koenker: — I found this a very interesting and important chapter. I think there are many, very helpful observations in this chapter. There's no question that information security is vitally important to government and to public accountability and public trust.

In terms of our disposition of this chapter, I think we should note that we concur with the auditor's recommendations in concept and recommend to the government that they look at ways to ensure that the security concerns addressed by the auditor are addressed by government.

The Chair: — I think that's a suggestion in terms of how we might approach it. Because I didn't count, but there are a great number of detailed recommendations. And I guess if we can have a consensus, that all of these have merit and that we recommend the government to look at all of these issues and to treat them with some importance.

I don't know how you want to word that specifically, but I think . . .

Ms. Stanger: — Just as it was.

The Chair: — Just as it was, okay. Do we need that written or just a consensus? Or does everybody understand the suggestion?

Mr. Aldridge: — Thank you, Mr. Chair. Just given that the number of recommendations here are quite numerous and this is a rather significant undertaking here, would the auditor's office be able to just make some comment as to what would be considered the reasonable period of time in which the committee might expect that the government would be able to progress in any of these regards, and I'll just let you comment about that and then I had one other question concerning something else.

Mr. Wendel: — Mr. Chair, Mr. Aldridge. I think Phil was saying that we planned to do a follow-up on this two years ago and it goes back to the committee where things are at two years from now.

Mr. Creaser: — Yes, I think that's a fair period of time.

Mr. Aldridge: — Sorry, I missed that earlier.

The other question I just had concerning when you talk about this with relation to asset management, and then my question would be with respect to disposal of certain assets. Has that become of a major concern when it comes to disposal of, let's say, a personal computer and information remaining on hard drives and this sort of thing?

Has there at least been some adequate procedures adopted in that regard or did you find that that may have been lax at some time? That would seem to me to be rather basic procedure at this point and would have been something that any of the departments that you would've worked with would have adopted, but if I could just get some comment.

Mr. Schwab: — I believe that SPMC (Saskatchewan Property Management Corporation) has a program that . . .

The Chair: — If you'll excuse me, for *Hansard* you have to get up where you can use the microphones, please.

Mr. Schwab: — Like I was saying, I believe that SPMC has a program that they distribute to the departments that allows the departments to clean off the hard drives so that the data cannot be recovered on them. So that when they are to be disposed of that the data in there is not accessible and there would be no confidentiality breaches. We did not ask a question on that in the survey.

The Chair: — Are there any further comments?

If not, I think . . . Do people understand the recommendation as Mr. Koenker made it, and if so, are you ready to be asked the question? Are you in agreement or is there consensus on the recommendation? Agreed? Thank you very much.

Are there any further comments on this section by anyone?

I'm informed that the presentation on the pension section would be approximately 30 minutes. Would it be the desire of the committee to have a quick coffee break now so we don't interrupt that? Because it's going to be awkward.

Mr. Thomson: — Thirty minutes is an extremely long presentation.

The Chair: — It's no longer than some of your speeches. We'll break for five minutes for a coffee break.

The committee recessed for a period of time.

The Chair: — Ladies and gentlemen, we'll now come to order and again ask Mr. Wendel to introduce the presenters on the issue of pensions.

Mr. Wendel: — Yes, Mr. Chair, we have Ed Montgomery here this morning. He was instrumental in getting this chapter ready for us and we'll have him make the presentation.

Bob Black was just mentioning to me that there may be some confusion on this protocol document that we put out earlier, if they . . . following along how . . . recommendations. And on each one where we have government-wide pensions, what we're suggesting in this document is that if you deal with the '96 report you will have dealt with all the past ones. You needn't bother . . . like, any recommendations in the past one will be coming forward. So I just thought I'd clarify that before we get started.

Mr. Sonntag: — Yes, we just had discussion in the break, Mr. Chair, dealing with this. And maybe we ought to clarify even just a little bit further than Mr. Wendel has done.

I think it was, at least the inference that I had made or suggestion that I had made, that the auditor's office actually, when referring to the spring 1996 report, break down each specific recommendation. And I think, after our discussion, that might be a bit redundant because the report already exists. And in light of the fact that, as Mr. Wendel said, that this already covers off prior recommendations, I'm not sure that that's necessary. So if any other committee members want to say anything, feel free.

The Chair: — Any other comments then on this issue? The opinion of Mr. Sonntag is that the fact that all the recommendations are listed in detail in the '96 spring report is sufficient; that they don't have to be duplicated in the protocol agreement.

Mr. Sonntag: — The premiss of my suggestion was because I wasn't absolutely clear that this covered off all prior recommendations.

The Chair: — Is that adequate then, that the protocol agreement as tabled and listed is sufficient and any reference to it is in '96?

A Member: — Agreed.

Mr. Montgomery: — Morning, ladies and gentlemen. Thank you very much for the opportunity to present this presentation on pensions. In order to make things go a little quicker, Victor has kindly offered to turn my slides for me.

Before I begin, I'd like to make sure everybody has a package that we handed out at the beginning. And in the package you should find every slide that's in this presentation. In addition you should also find some more information on the exhibits that are in the chapter but which have too much detail to put on a slide. So if you'd like the information you can just turn the pages in the booklet. I'm not the information technology group, so I guess I'm using the old-fashioned slides here.

I guess a few days ago when our report came out, the *Leader-Post* editorial described a topic of pensions as "sounds like a yawner on a sunny spring day." In view of the shortness of our spring this year and today's forecast of snow for tomorrow, I will attempt to prevent you from yawning this morning.

The purpose of presentation, I guess to provide you an overview of the chapter and also to assist you to understand what, I believe, is a complex subject. We'll also provide the rationale for our recommendations, and hopefully we can answer all of your questions.

The purpose of the chapter is to provide information, to provide information on the significance of the government's pension plan and on a number of important issues that need to be managed.

I'm not sure whether it's going to be easier to look at in your booklets or on the screen, but this slide shows the assets and liabilities of all the government's defined benefit plans and defined contribution plans. First of all, it shows them at 1992 on the left hand of your screen. And you'll see that at that time the pension plans had assets of $3.3 billion. Unfortunately they had liabilities of 5.8 billion, the difference being a shortfall of 2.5 billion.

In three short years to 1995, the assets increased, sure, to 4.2 billion. Unfortunately the liabilities also increased to 7.2 billion. So in that time, there's an increase of 500 million to 3 billion in the shortfall in these funds.

You can also see on the slide that it's divided into black and white and the white being the defined contribution plans. And those plans, you can see that the assets and the liabilities equate. In other words, there is no funding problem in those plans. The funding problem lies in the defined benefit plans.

Now I have difficulty with the concept of trying to understand what 3 billion actually is and trying to explain, because it's a lot of money. It's a lot of zeros. A few ways I could attempt to explain it is that SaskPower's annual report, just tabled the other day, their total assets — all their property, plant and equipment, generation stations, transmission lines, buildings, computer equipment, all their cash, short-term investments, accounts receivable — approximate $3 billion. The net income of SaskPower for 1995 was approximately $80 million. That would be . . . 3 billion would be around 37 times that.

Another way to try and explain it is in the summary financial statements for 1995. On page 54, the total revenue collected by the province for taxation for 1995 — and this includes corporate capital tax, corporation income tax, fuel tax, individual income tax, sales, tobacco, and other taxes — was 2.6 billion. So even that wasn't enough to pay the 3 billion. That's the significance in terms of dollars.

Now in terms of people, it's also very significant. Approximately 133,000 members belong to the government administered pension plans. Now we also have these other exhibits. There are 74,000 active members. These exhibits appear at the back of your package if you want to look at those.

There are 74,000 active members. That means members who are still contributing to the plan. There's 28,000 retired members, and 31,000 inactive members. Inactive members are those members who are not presently contributing. They may have deferred their pension to a later date.

Before I can get in too far into explaining the chapter, I think it's important that you understand the different types of pension plans and the concepts there. Essentially there's two types of pension plans — defined contribution and defined benefit.

Highlights of the defined contribution plans — and most people in this room I think belong to this type of plan — the members and the employers contribute to a fund. A portion of the fund's earnings are allocated to members. And we're going to discuss that in more detail later under the heading of allocation policies.

Members use the funds accumulated in this fund to purchase a retirement annuity. The investment performance of the fund directly affects members' pensions. In other words, poor investment performance will lead to poor pension. And finally I guess with that, the key is that the members are the people who bear the risk in the plan.

In your package there's a list of the actual pension plans. I don't intend to read through that list.

Exhibit 2 on page 58 and also the next page of your package shows the relevant size of the defined contribution plans. PESP (Public Employees Superannuation Plan) is the largest, with assets of nearly 1.2 billion.

The other type of plan is defined benefit plan. And the highlights of a defined benefit plan are the members' pensions are based on salary and years of service. Typically it's the average of the best five years salary times 2 per cent for each year of service, to a maximum of 70 per cent.

Key here, and it's underlined, is members' pensions remain the same regardless of the investment performance. That's the pension promise by the employer or the government. If the investment performance is poor, the government has to contribute more to provide the promised pension. So in this case it's the employer that bears the risks of poor performance rather than the government. In other words, it's the taxpayers.

I think all plans — I haven't highlighted it on the screen — but all plans except the judges' plan are closed to new members. I've listed again in your package a list of the defined benefit plans, which I don't propose to read.

Exhibit 3, also in your package, compares the assets and liabilities of the government's defined benefit plans. The teachers' plan has the largest unfunded liability at 1.9 billion, and the public service superannuation plan has the second largest at 1.1 billion.

The teachers' plan, the date of that was the June '94 financial statements, and the PESP plan was March 1995. In the period from June '94 to March '95, the teachers' plan unfunded liability increased substantially.

I just want to run over certain risks that are there if plans are not managed well. The government's accountability through the Assembly will be impaired if the plans are unable to prepare financial statements and provide accountability information to the Assembly. And that has actually recently been the case with the teachers' superannuation plan. It's six months ago; I think the latest set of financial statements that the Assembly had was the June 1992 financial statements. Teachers though, have improved substantially recently and have now completed the 1993 and '94, and they're included in that compendium. And I think the 1995 is finished, though not yet public.

A Member: — Which plans or which plan are you talking about?

Mr. Montgomery — For the teachers', the teachers' superannuation plan, I was talking about on that first item . . .

Mr. Johnson: — Defined . . .

Mr. Montgomery: — It's a defined benefit plan.

Mr. Johnson: — How does the defined benefit plan . . .

A Member: — Let's move the question.

A Member: — We're not asking questions of . . .

The Chair: — Please, what we'll do is keep note of your questions, and when the presentation is over, then we have a speaking order and we'll recognize people that wish to ask questions.

Mr. Johnson: — Circle the middle.

Mr. Montgomery: — To continue with the risks if plans are not managed well, one risk is plan members will receive smaller pensions due to poor investment returns, and that would affect defined contribution plans.

The cost to taxpayers for government pensions will increase, and that will be poor investment returns in defined benefit plans.

Other risk, plan members in the public will lack confidence in the government or employers if the plans are unable to provide information to plan members. And the government will lack essential cash flow information to manage activities like borrowing and taxation policies.

To manage this pension risk, the government needs systems and practices to ensure pension plans maximize their investment earnings with an acceptable risk, to keep accurate and complete records, safeguard their investment, submit timely reports, manage cash flows and comply with the law.

During our examinations of the government-sponsored pension plans, we found plans use different investment strategies and thus obtain different investment earnings. In other words, some are more conservative than others. Plans keep accurate and complete records except the teachers' superannuation plan, and that's discussed in another chapter, the Department of Education chapter. Plans physically safeguarded and control their investments from loss due to error or fraud. These are the findings that we're finding as we're examining these plans.

We also found more information is needed to allow stakeholders to assess pension plan performance. Not all plans table annual reports in the Assembly. For example, CIC (Crown Investments Corporation), SGI (Saskatchewan Government Insurance), SaskPower, and SaskTel; those reports are not presently tabled in the Assembly.

We have found that several plans have tabled their annual reports late. We've also found that plans use inconsistent estimates to calculate their pension liability, and again we'll talk about that later in this chapter. We also find there is little information to assess plan performance.

We also found no cash flow information was included in pension plan annual reports — we'll talk about that later — and we also found that plans, except for teachers and MLA (Member of the Legislation Assembly), complied with the law. And the teachers' non-compliance is in the Department of Education chapter and the MLA is in the Department of Finance chapter.

The chapter also includes information on annual pension costs by pension plan. Exhibit 4 shows the cost of pensions earned by members in the year as a percentage of their salary, and there's two components in that exhibit — the amount contributed by the member and the amount it costs the government.

And you'll see from exhibit 4 that the range in the government's cost goes from 5 per cent for the PESP plan to 15.7 for the judges' plan. That exhibit is included in your package. The chapter also has information on pension plan earnings. As mentioned previously, plans use different investment strategies and therefore obtain different rates of return.

The next two slides compare the five-year net average annual rates of return and average operating costs with the government pension plans. You can see on this slide, exhibit 5, the highest rate of return, or net rate of return for a five-year average was the teachers' superannuation plan at 9.51 per cent. The weighted average of all of the plans was 8.95 per cent and the lowest return was 6.4 per cent.

Exhibit 6 compares the average operating costs charged to government pension plans. You'll see on this chart — and this is for the five-year average again — you'll see on this chart that the highest operating cost percentage was that of the Saskatchewan Pension Plan at 1.05 per cent, and the lowest was the SaskPower plan at 0.05 per cent.

The key on this chart is that some plans charge more costs to their pension plans than other pension plans. In other words, some costs may be borne by the Crown or the department. For example, for the teachers' superannuation plan a number of the operating costs, or a percentage of the operating costs is borne by the Department of Education. So it's kind of not a fair chart because it doesn't show all the costs incurred by the plan; it shows all the costs charged to the plans.

We don't have the information to know what operating costs were incurred but not charged to the plan; that you can say there is some inconsistent treatments in how costs are charged. Exhibit 7 is included in your package and it just provides more information on investment earnings and allocation policies.

The next area which I want to go to, and I mentioned previously, was the area of allocation policies. And this discussion relates to the defined contribution plan. In defined contribution plans, the allocation of investment earnings to plan members directly affects plan members' final pension. When plan members retire or leave, they receive their contributions, the employer matching contributions, and the investment earnings allocated to them. That's not necessarily all the investment earnings in the plan. Plan members use the money received to buy a retirement annuity.

We found that the different defined contribution plans used different allocation policies. They're not consistent. CIC and SRC (Saskatchewan Research Council) for example, allocate all investment earnings to plan members. And that's similar to when you purchase a mutual fund. All of the investment earnings are allocated to the members, and the member bears the risk on a daily basis.

So for CIC and SRC, they allocate all investment earnings. Other plans hold back some of the investment earnings or losses, and that policy is referred to as smoothing. What is smooth is the change in the market value of investments. And that means for example, if they held a number of investments in a TSC (teachers' superannuation plan) at the beginning of the year, and they increased by 20 per cent to the end of the year, that 20 per cent increase in the market value is what's being smoothed here. Alternatively, it could be a 20 per cent decrease, and that would be what's being smoothed. So it's the change in the market value.

Now what happens in the plans that hold it back is the change in the market value investments is allocated to members over a four-year period. Some plans have a cap on the amount deferred to future years. The next slide will explain that a little bit more.

Again it's hard to see but you've got it in your package — a number of the plans held back monies in the smoothing account. PESP had 10.6 million in March '95; the Saskatchewan Pension Plan had losses of 2.6 million at December of '94; the MLA (Member of the Legislative Assembly) plan had around 400 million . . . no, .4 million at March '95; and MESP (municipal employees superannuation plan) had a similar amount in losses.

So what does that mean? I guess if we looked at the MLA plan, you see in the right hand column there, 1993-94, that the percentage of the investments that was in that smoothing account at the end of '94 was 7.3 per cent. It decreased at the end of March '95 to 3.5 per cent. I think that what that means is if you were an MLA and left the plan in, say, April 1, '94 to March '95, then you would've left 7 per cent of the investment earnings behind in the plan, versus the situation that CIC or SRC follow where they allocate all the investment earnings.

So I think I've explained it. But what happens to unallocated earnings? The unallocated earnings benefit the members remaining in the plan.

What happens to unallocated losses? Using the same allocation policies, members retiring would be allocated a higher return on investment than that earned by the fund. And where there are unallocated losses, the members who benefit are those that retire or leave the plan, as the unallocated losses will be borne by the remaining members.

And I think the key in that is there was a number of inconsistent treatments in these allocation policies — some allocate all, some have a cap of 5 per cent to hold back, some have a cap of 3 per cent to hold back, some don't have a cap. So there's a number of different policies here, which brings us to our first recommendation — and there's only four in this chapter:

> The government should study the investment earnings allocation policies of its defined contribution pension plans to determine whether it is appropriate to have a consistent policy. If consistent policies are not considered appropriate, the government should explain why.

The next area of inconsistency that we find relates to the defined benefit plans. Now we're jumping from one to another, which is why we explained the differences between. And this slide relates to defined benefit plans.

Defined benefit plans calculate a pension liability. And what happens here is that they use an actuary to calculate liability, based on management's best estimate assumptions. Now for a number of these plans they're awarded COLA (cost of living allowance) increases or ad hoc increases for inflation by an order in council, by the Lieutenant Governor in Council. And even though they're all subject to the same Act, The Superannuation (Supplementary Provisions) Act, and they're all given the same award on the same order in council, they all have different views as to what the future lies for these percentage increases.

And what we're saying here is that they should be in line. There should only be one estimate for that item. And you see the Liquor Board, public service superannuation plan, and the Workers' Compensation Board plan, their estimate is in line with that used in the government's summary financial statements. The others at this time, SaskPower — and we're talking the December '94 financial statements in SaskTel — one has an estimate of 40 per cent and one has an estimate of 60 per cent. We would like them to be consistent in the way they calculate their pension liability.

Similar on inflation — on inflation we believe the government can really only have one estimate of how it thinks the future of inflation is going to be. But when we look at these plans, they have different estimates. And it ranges from 4 or 4.5 to 5. The middle lot with the star again are consistent with the summary financial statements. We would like them all to be consistent.

We're not referring to other pension plan estimates that are made that are inconsistent. I mean there's different mortality rates. There's different . . . for certain occupations, there's different salary rates, different rates of increases. Those should be different. They should follow the pattern of the plan, but these ones, we think there can only be one estimate and we would like that to happen.

That brings us to our second recommendation: the government should use consistent estimates for COLA increases and inflation to calculate the pension liability for its defined benefit pension plan.

The next topic is cash flow information required. Pension plans need cash flow information to manage their investments. If there are a number of retirements coming due, they may need to move some of the investments from long term to short term to whatever to meet those obligations.

Other government agencies need cash flow information to know when they'll need cash to pay the pensions promised, and I'm thinking here in terms of the defined benefit plans that are not fully funded.

One problem with that 3 billion is I'm not sure when exactly it hits, what date is it all going to be due and does the government have to go and borrow some money to meet its obligations.

We think the Assembly and the public need cash flow information to understand and assess how the government is managing the 3 billion pension liability. And we'd like to point out that currently none of the government's defined benefit pension plans show future cash flow information in their annual reports.

In our third recommendation, the government's defined benefit pension plan annual report should show future cash flow information.

The next topic is a pension commission task force. We believe such a commission could study many issues facing the government's pension plans, including the risks and issues described in this chapter and certain inconsistencies. Also could discuss the issue of funding pension plans and the need for 12 organizations to manage the government's pension plans.

There's a number of other issues that are equally important that I could discuss and we haven't got in the chapter, and in terms of who owns the surplus in defined benefit plans. It seems for sure the government has been given the deficit, or seems they've got ownership of the deficit in those plans, but who owns the surplus in those plans? Is it owned by the members? Is it owned by the government? Is it owned jointly? I don't know.

On the issue of funding of defined benefit plans, again here we have a number of inconsistencies in this chart. In the first column on the left is the teachers' superannuation plan, and actually I don't . . . I'm afraid we're running down the teachers too much, because they're making good strides in improving their information.

But you can see in this chart that the teachers' pension plan is partially funded. In other words, there's about $1 billion worth of assets and about $2 billion which is unfunded.

The next one is the public service superannuation plan. You can see that's virtually totally unfunded, and there is actually a little line of assets there, but it's almost impossible to see.

And you can see some plans are fully funded and that would be the . . . SaskTel and SaskPower is about even with the fund.

So again, that shows there's inconsistency in how these pension plans are funded.

Are 12 boards needed to manage the government pension activities? We believe that's another issue that could be discussed or dwelled upon by a task force.

One extremely important thing that happened in 1978, the government closed several of its defined benefit plans, i.e., the SaskPower plan, the SaskTel, the public service superannuation plan. And new employees all became members of one defined contribution plan, i.e., PESP. I think they also may have become members of the CIC plan which is also a defined contribution plan. But that was an important step forward because, for those plans, there was no problem with the funding. The funding was fully funded in that one, so they kind of stopped the problem getting too much worse.

Currently there are a number of boards administering the closed defined benefit pension plans, and we wondered if there's advantages to combining some of those organizations. Maybe they arose in a sort of historical type of evolution rather than . . . maybe they're not necessarily the best structure for the current day. Maybe there's costs to be saved in terms of consultants' fees. Maybe with a larger investment portfolio, they may get better returns; they may get lower costs. And maybe there's some administrative savings. A number of them fall under very similar legislation.

So I guess our last recommendation here is that the government should consider establishing a pension commission task force to study the many issues related to its pension plans. There's some more information in your booklet on the membership of the plans, and also included for your convenience is one-page summary of the four recommendations.

Finally, our future, added plans — this is within the next year — we plan to look at a pension plan out of annual reports to see what information is given in those annual reports. Do they ascribe what the plan's all about, what the plan has done, where the plan is now, what the plan intends to do? Is there some performance information in those annual reports? And also we plan to look at the practices used to obtain investment managers and tendering and that type of information. That concludes my presentation. Hopefully it wasn't too much of a yawner, and I'll attempt to answer any questions.

The Chair: — Through the course of the presentation, a number of individuals have signified that they wished to enter the discussion. I would like to allow members to do that. And then I think depending on your direction, we will look at the four specific recommendations.

Ms. Stanger: — First of all, I'd like to thank you very much for your detailed presentation. It was very informative, and I hope we can keep these hand-outs that you've given us. I just want to say . . . I have a short comment and a short question. The pension fund . . . the pension plan unfunded liability is not a new issue. It actually . . . pension plan unfunded liabilities have existed in this province since 1927. And the unfunded liabilities have not been addressed by any government with the exception of this one in the 1970s, with the creation of the new defined contribution plan which they are fully funded, but I just wanted to make that little comment.

The chart on page 56, we see a $500 million increase in liabilities since 1995. What are the major elements of this change? Is there a change in accounting, or is there actual liability? That's what my concern was.

Mr. Montgomery: — There is an actual liability. In this case, it's not a change in accounting. One of the reasons we picked 1992 as opposed to five years back is there was some consistency in terms of how those COLA increases were recorded in the pension liability. Before 1992, they weren't always recorded in the pension liability. So the two are consistent from that point of view.

I guess all I can say is it's a real liability. We recognize that in 1978 significant steps were taken, but we would like to also point out that the liability there is growing. And as more of these members retire then less contributions are going to be coming in from the members. And it will continue to increase.

Ms. Stanger: — So you're going to get a blip some year.

Mr. Montgomery: — Well we don't know what the cash flow . . . you know, how this . . . the critical points that this is going to impact. And that was another point. But it will be over a number of years that this 3 billion is paid, but we don't know yet, you know, the critical years or whether there's going to be significant borrowing in maybe five years or ten years time, as I think the average age of the people in these contributions was around 46, 47 years of age. So they're getting very close.

Ms. Stanger: — Could I just one more . . . could I ask Finance for their opinion on what I've just . . .

Mr. Kraus: — Well just talking about cash flows for example, don't have, as you say, cash flow projections over the years. But clearly when people retire, most would expect to live for quite a few years — 20, 25 years, whatever. So this $3 billion liability would be cash flowed over probably decades. I don't know if it would be 20 years, 25 years, 30 years. It isn't as though you have to have all of the $3 billion at one time. And I wouldn't want to downplay the size of the liability or anything. But that will be paid out over a long period of time, so it's not like one day you have to have the $3 billion.

Ms. Stanger: — Are you saying that it's manageable?

Mr. Kraus: — That's difficult to say.

Ms. Stanger: — In the long term.

Mr. Kraus: — You know, now you're asking for my opinion I guess, and I have noticed that governments are faced with changing revenue flows from the federal government. There's changes they're having to address now in the health field, education, and other areas. And although you can't say that this won't put some pressure on somewhere, you would expect that governments will manage. They make changes. At least that's been my experience and I've seen it in some of the sectors like I've mentioned. And I've seen an adjustment as well, as the federal government changes the amount of money it's prepared to pay provinces.

Ms. Stanger: — Thank you very much.

Mr. Johnson: — Okay. On the one that I questioned, if I understand it correctly, you were saying that it was defined benefits, and yet it would be . . . the statement on the screen indicated that the members would receive less due to the . . . Slide 10: plan members will receive smaller pensions due to poor investment returns. And I questioned it because as I interpreted what was coming from the previous slide, number nine, you were into the defined benefit plan. I think that statement is totally inaccurate unless I totally misunderstand how these defined benefit plans function.

Mr. Montgomery: — If I might address that slide 10. There are two . . . after the first point, there's two points there. The plan members . . . one of the risks, that if plans are not managed well, is that plan members will receive smaller pensions, for example through poor investment returns. There I'm referring to defined contribution plans.

In the next line I'm saying cost to taxpayers for government pensions will increase, and there I'm referring to defined benefit plans and I guess it would have been more clear if I'd made that clearer on the slide.

Mr. Johnson: — The reason that I bring it up is that . . . and I want to point out, anybody dealing with pensions, if you insist on always bringing everything into a single puddle, then when you speak you'd better really understand what you're doing because you've got mud and water in the same thing; apples and oranges, and you're turning out grapefruit.

And that is not helpful to giving people an understanding of what is going on. And I think all the way through the presentation, this flipping back and forth was happening with the impact that you get people having the . . . that there is a problem that is not consistent.

I think another place where you'll find that is in the . . . you're wanting all of the plans to function together. And the different Crown corporations may, in the future, be falling under either federal or provincial jurisdiction and may have already been making differences to their pension plan to implement where they expect that they're to be regulated from in two or three years from now.

So when you see something on the page that says that you should be expecting everybody to be the same in their costs, I don't think that that's really expecting an accurate thing. That might easy . . . slide 27, where superannuation . . . the inflation is . . . well inflation. Quite frankly I don't think that there is anybody that projects inflation the same. We don't use . . . we don't, in the province of Saskatchewan, use the same inflation projected figures as the federal Liberal government does and any place else. So for people to be within a half a point of their inflation over a whole spectrum is really reasonable, to expect that much variation in people that are looking and managing things.

I know that that doesn't make it nice and easy for people that are accounting for it. But the thing is that I'm pointing out, is that if every group of people in there came up with the same thing, I would then say that that would be the time to start asking whether they are doing any thought on it at all.

Somebody has made these projections based on their analysis. And although they are fairly close, the fact that there are differences is a good thing to indicate that people are actually working in behind. Because if they came out all the same, what that means is that somebody is just copying the next person down the road, and that could end up being a real problem for the province.

But the overall thing that I wanted to put forward is that it is very important not to mix these two plans together and deal with them in a flip-flop situation, because what is good in one structure, you say the same thing about the other pension plan and you really are creating a problem.

And I think that's very important, that people understand that these are two distinctive concepts. The older concept based on the defined benefit is a concept of paying people a benefit in their senior years for having done good service for an employer. The new concept is a concept that says that while you work you put away some money so that you have funds to live on in your senior years — totally different concepts that make them work.

Thank you, Mr. Chair.

Mr. Thomson: — I have two questions I'd like to ask and maybe just preface them. The presentation probably was slightly more informative than one of my speeches so it . . . (inaudible interjection) . . . well you know I like to be upfront and honest, and I just thought I'd get that on the record. Thank you, Mr. Chair.

The first question I have really pertains to paragraphs .8, .9, and .10 of chapter 5 on page 56 of the spring '96 report. And what I'm not completely sure I understand is where the liability actually is. And we have 133,000 members belonging to government-administered pension plans — 31,000 of those are inactive but will receive a pension; 28,000 are retired and are receiving a pension; and 46,000 are currently contributing and not superannuated.

How many of these members are part of the old plan versus the new plan? What are the numbers on that? And where's the liability housed actually?

Mr. Montgomery: — Well we haven't . . . I think we have the liability per plan in one of our exhibits. I think exhibit 3 in our annual report on page 60, you can see on that one it shows the assets and liabilities per plan. So those all would add up to the $3 billion liability.

In terms of the member information at the back of the chapter, we have given more information in exhibits 8, 9, and 10 of the competition of the members that are contributing, retire, and inactive, if that helps.

Mr. Thomson: — Actually, no it doesn't because I reviewed that information. It doesn't answer the question I was posing which is of the liabilities. Now you've given me the 133,000 who are participating in plans in total. How many are participating in defined contribution plans versus defined benefit plans?

Mr. Montgomery: — I guess I haven't . . . we would have to provide that.

Mr. Thomson: — I'd be interested in that as well as what the . . . I guess what I'm wanting to know is how many people are affected here? How many plan contributors are actually affected by the liability or carrying liability? How many people we're dealing with and some of that . . . but if you don't have that information with you today, that's fine.

The second question I had, actually, was out of the presentation. And I just wanted to make sure I understood this. On slide 23, you talked about the defined contribution plan unallocated investment earning losses. This is the amount, as I understand it then, that members have contributed that the plan holds in a smoothing account, you refer to as. So for instance then, and this would . . . let me just use as an example when the Premier and the member from Regina Dewdney, Mr. Tchorzewski, pulled out of the MLA old plan and moved it over to the new plan. They actually stranded 3 per cent of their investment.

Mr. Montgomery: — No, this chart only refers to the defined contribution plans. It doesn't . . .

Mr. Thomson: — This is only defined contribution, so under defined benefit then there is no . . .

Mr. Montgomery: — There may be some allocation, you know, when a person switches from either defined benefit plan to another employer or whatever. We haven't looked at how that's calculated in this chapter. We've only looked at how the defined contribution plans have allocated their investment earnings in this . . .

Mr. Thomson: — I see, okay. Okay, thank you, Mr. Chair.

Mr. Koenker: — Thank you very much for this presentation. It's even more important than the technology-risk chapter, I think, and I very much appreciated it. I have one question regarding the first recommendation at the back of your booklet you handed out.

The Chair: — If we made for purposes of identification, could we refer to the recommendations as they are in the spring report . . .

Ms. Stanger: — Number them 1, 2, 3, and 4, Mr. Chair. That would make . . .

A Member: — Where is the recommendation?

A Member: — On page 71.

A Member: — 74, 83, and 88.

Ms. Stanger: — Okay, 74.

Mr. Koenker: — 71.

The Chair: — Page 71, recommendation .74.

Mr. Koenker: — Oh yes, right.

The Chair: — Just to keep them . . . Okay.

Mr. Koenker: — Speaking to .74, recommendation 1 on page 71, the question has to do with whether or not the different allocations of earnings whether that's a result of statute.

Mr. Montgomery: — No. These are decisions made by the individual boards, I assume, of those pensions plans.

Mr. Koenker: — But is there legislation that governs the way in which they do the allocations?

Mr. Montgomery: — No. The legislation leaves it, I think, to the discretion of the boards.

Mr. Koenker: — In all cases?

Mr. Montgomery: — As far as I understand, in all of these cases. I'm not aware of another case. I could check into that if you like, but . . .

Mr. Koenker: — Yes, if you would.

Mr. Kraus: — Mr. Chair, I believe that the auditor would likely be right there, that the boards are charged with administering the fund. And one of those things would be determining how to allocate the amount of earnings for the year to each of the members' accounts, so that would be a board decision.

Mr. Koenker: — I think then, in light of the recommendation that we have before us from the auditor, I would like to see us recommend that the government does look at the issue of consistency and offers an explanation.

Mr. Kraus: — I'm almost reluctant to make this point, but one of the things that may happen as a result of legislation you're considering for the new money purchase plan, as I refer to it, is that at this point in time there can only be one fund. The legislation that's before the House, if passed, would contemplate that, in addition to that one fund that many people may wish to continue in, individuals would be given, as it was developed, options to invest their monies as they saw fit.

Now there'd probably be some parameters around that, but they would be given choice. That's in part as the result of a survey that was done by the Public Employee Superannuation Board several years ago that included membership, union, and so on. And I guess what I'm trying to get at here is that if we were looking at this issue six or seven or eight years from now, you may find that different members in the same money purchase plan would have different rates of return because they opted — just as you may opt when you buy your mutual funds — for a different asset allocation.

If you're younger, you feel that you want to be more aggressive; you'll go for a stronger equity component. Conversely if you're older . . . Well you still may feel that way. But in any event, there should be choice if this Bill is passed. And so you should . . . I guess what I'm trying to say is, is that the notion that there should be one way for all doesn't necessarily follow.

Mr. Koenker: — No, but I think that in terms of the recommendation, I think an important part of the recommendation is that there is an explanation as to some of the logic or the rationale because we don't have that in the auditor's report. I think that would be very helpful information to have in terms of the reasons for the aggressiveness or the conservativeness of any given allocation policy.

Mr. Sonntag: — So you're saying accept the recommendation as stated.

Mr. Koenker: — I think, basically as it's stated, that the government look at this issue of consistency and give some kind of accounting or explanation beyond what we find in the auditor's report.

The Chair: — All right. I note Mr. Toth in my speaking order. Would you want to speak to this specifically, or are you prepared to deal with this one recommendation and then I'll carry on unless . . .

Mr. Toth: — Well basically I had . . .

The Chair: — I don't want to lose what may be a consensus here on this one.

Mr. Toth: — Number one, what's our scheduled time of adjournment?

The Chair: — 11:30.

Mr. Toth: — The one question I had, coming back to what Mr. Kraus said, his comment earlier on about the fact that the unfunded liability is not necessarily a major problem because it may not fall on government in one single year. Well that may be true. But the unfortunate realities are, with the defined benefit plan, that unfunded liability is an ongoing problem.

And I'm not exactly sure where we're at, but it would seem to me we're probably getting to the point where, when you look back at 1978 where the plans were switched and the defined benefit plan was ceased, a lot of those members must be not too far away from retiring which means that these plans are going to have to start . . . or governments are going to have to start picking up that unfunded liability. The plans obviously can't carry themselves once everybody retires. That then becomes a cost to any government down the road annually; that's got to be factored into their expenditures.

And I'm not exactly sure how we address it, but certainly it's going to be something that future governments, present and future governments, are going to have to deal with. And that becomes an added cost to when you look at programs being offered. So while you may not need 3 billion in one year, that's going to add up. And as you pay it out, it's going to add up to probably a lot more than 3 billion by the time . . . depending on how long people survive. And if our health wellness, if I can use the word, happens to give people an extra two or three or five years, it's going to cost us plenty.

Now who pays for that? It's the taxpayer I guess because obviously there's becoming fewer and fewer people in that defined benefit plan that are contributing, and more and more taking out. And that's just an observation I had regarding this. So I don't think we can just slough over it as not being a major problem or concern. It is, and will be an ongoing problem.

The Chair: — I think that your comments may have a great deal of relevance on .88 because it deals with that future cash flow projection which really would identify those detailed annual liabilities.

If we can then . . . I'd like to complete recommendation .74 that was raised by Mr. Koenker. Are you ready for the question? Do we have consensus on that amount?

Mr. Toth: — Government looking at it at a consistent policy, that's the one you're talking about?

The Chair: — .74 on page 71, that we're adopting that recommendation as stated. Agreed? Consent. Thank you.

The next recommendation is on page 73, recommendation .83. Is there a suggestion on this, or are we in agreement that we adopt that recommendation as well? Agreed.

The next recommendation is on page 74, recommendation .88, which I think addresses in large part what Mr. Toth just raised. Are we in agreement with that recommendation?

Mr. Toth: — I'd like to know what the auditor is . . . how you determine these future cash flows. In asking these pension plan reports to give this, what do you really mean by that? Are you talking about what monies are available and how it's expended?

Mr. Montgomery: — What we're trying to get at there, Mr. Toth, is when the actual liability is going to be paid, when it's going to come due. And it's actually an actuarial calculation. An actuary will have information on the ages and mortality rates, provide that . . .

Mr. Toth: — So you're basically asking these plans to then determine, okay, in 19 . . . let's say this year there's so many people are going to probably retire or take a retirement option, and so that's going to become a cash flow that should be recorded. Next year what they anticipate and down the road, that's what you're basically suggesting, just to point out what the costs are?

Mr. Thomson: — I had attempted to jump into the debate on .83, but I think it's as germane to .88.

One of the concerns I have with this . . . I don't have, I feel, an adequate understanding or an amount of information in front of us here to make some of these decisions. Now I certainly agree with .99; government should establish a commission to study the issues related to the pension plans to probe into these very issues in some detail. What I am concerned about is, as we look at .83, I don't know what the implications are of doing that. And as thorough as the auditor's report was this morning, I think we should maybe go at this a little more methodically.

So I appreciate the committee has already dealt with .83, but I think maybe with .88, we should encompass all that under recommendation. 99 and simply proceed with that one. It would seem to be more comprehensive. So that's my only advice. I don't want to go back on the vote on .83 in dissent. But it's just . . . I would think that both of those are issues that should be dealt with under .99 in the pension commission.

Mr. Wendel: — Just on that, Mr. Chair, Mr. Thomson. This committee has looked at the need to show the cash flow information in a past committee. And there's a recommendation; I think it was in the seventh report where we talked about . . . or you people recommended that the government should review whether that cash flow information should be presented in the summary financial statements.

So it's not a new issue. All we're asking for here is that, besides being there, it should be in the individual pension plan statements. So when you get those pension plan reports, it will help you understand and assess what's going on in those reports because they'll talk about an unfunded liability in the teachers' plan of . . . (inaudible) . . . And it'll give you some information to understand when that might have to be paid. And as a member, I think that would be useful information for you.

Mr. Thomson: — I don't doubt that it's useful information. All I'm saying is that even the fact you can't tell me how many members are in the old plan that are affected is of some concern. I'd just rather we roll it in . . . I don't want to get into a debate with officials. All I'm saying is that, without the information here, I'm just wondering if we shouldn't be more comprehensive on it.

The Chair: — I don't know that one is exclusive of the other. I think that the information and the comments that were made in terms of the necessity to look forward in cash flows is an item that has merit on its own, separate from .99. It may be included, but it's not necessarily exclusive. So I don't think we're creating any kind of a conflict by asking the government to make that recommendation to government because we're going to get a reply back. The government may indeed say, if we indeed are recommending .99, that they're going to roll that all into one response, so I don't think it's exclusive.

Mr. Koenker: — Let's go with .88.

I think any recommendation we make is going to be looked at by the government in light of the discussion that takes place here, I would hope. So I think there's no problem in going with it.

The Chair: — Okay, we're then on .88 on page 74. Is there agreement that this recommendation be included as stated? It's agreed.

Recommendation on page 75, .99, is there agreement that that recommendation as well be included as stated?

Mr. Toth: — Except for question, Mr. Chair. I note in .89 in the report we have two years ago that the government set up to plan to form a pension commission to study its pension plan obligations. What has happened with that? Has that taken place? Is the auditor aware of this? It appears that there was a commitment, but where are we today?

Mr. Montgomery: — I guess there's no pension task force that we're aware of today. So I think there's actually a typo in that report. It was actually four years ago in mine.

Mr. Toth: — Okay, so we've got that four years ago, and yet we're still waiting for it.

Another question I have, and it relates to .92. It says, should the government fund its defined benefit pension plans? Maybe one has to ask where we look. And we note where the major unfunded liability comes in. Is it the responsibility of the taxpayer to make up the loss, or should the membership or the defined membership be contributing a little more?

As we're seeing the federal government now with CPP (Canada Pension Plan), suggesting there be more of a contribution to help offset the loss and make sure we bring it into a manageable and operational form of pension plan . . . And I guess maybe those are some of the questions that could be put to a commission if a commission is indeed established. And maybe we need to be not just using the word "should," but it's time we should be a little more affirmative and saying it's time the government indeed implemented the plan it was talking about four years ago, about bringing forward or putting forward a commission to define or to address this shortfall and how we manage it.

Mr. Sonntag: — Yes, I guess in light of especially the first comments that Mr. Toth has made with respect to the recommendation in the past, I think that logically what flows then is recommendation .99 that we reaffirm the recommendation that's made and request the government to study the issues with respect to pension plans.

Mr. Toth: — I would suggest that you maybe be a little more bold and say it's time the government honoured its commitment to establish this commission and get on with life, instead of just saying they should consider, and next year we'll be addressing the same shortfall and the same questions and going back, and we're back five years to a government commitment.

The Chair: — Okay, I think what I'm hearing is general agreement except the interpretation. And Mr. Toth, I hear you saying that the recommendation read the government should commission a study to study the issues related. The other side has worded that it should consider establishing a commission. How affirmative do we want to be? Should we actually directly request that the government establish a commission to study this issues or should consider?

Mr. Toth: — I would think this committee should recommend that the government get on with life and establish this commission and indeed affirm its commitment to address the issue.

Ms. Stanger: — I think that the auditor's recommendation is very clear. I think that the government will be able to read the comments that were made in this committee, and I go with auditor's recommendation.

Mr. Aldridge: — Thank you, Mr. Chair. Just with respect to Mr. Toth and his remarks concerning touching up this recommendation somewhat . . . and I would, if I could, just like to direct a question to Mr. Kraus. I know earlier he was saying that it has been his experience that governments adjust in their actions and, particularly in this instance, with respect to what will be our future annual obligations with respect to unfunded pensions. I think everybody here recognizes the significance of this matter.

But Mr. Kraus had expressed an opinion for us earlier, and I wonder if he would just, in this regard, give us his opinion. Have governments here in this province already been adjusting with respect to meeting their annual pension obligations?

Mr. Kraus: — I think they have to some extent.

Mr. Aldridge: — Well then, Mr. Chairman, given that response then, I would suggest that Mr. Toth's wording would be more appropriate, that considering that governments here are already having to make adjustments to meet annual pension obligations relative to the province's pensions that perhaps it is time that the government not just consider this any longer but that they perhaps do initiate the commission or task force that would be necessary to look into this matter more in-depth.

Mr. Kraus: — Yes, when I said that, I would just want to put some context on that. I mean going back a number of years of course; the government did introduce a money-purchase plan which changed completely the notion of pensions and who's responsible for them and how much they're responsible. So there's a big difference between a defined benefit and defined contribution plan.

As well, I notice from time to time there are ad hoc adjustments made for some of the defined benefit plans. Some years there are; some years they're not. To that extent, there's been some changes, or there is always some consideration to deal with a little differently each year. Well I guess I'll just have to leave it at that. I certainly with the . . . no, I'll just leave it at that.

The Chair: — Okay, I'm not sure that we have a consensus here. If we don't have a consensus, do we need a motion then to actually have a decision on?

Mr. Sonntag: — I was just going to say we have the recommendation; I was just going to ask that we proceed with that. Or if we don't have consensus, I'm prepared to put the motion on the recommendation. We've been moving along here so nicely; I hope the opposition just concurs on this with us.

The Chair: — Okay, the discussion is then do we have consensus on .99 as included in the auditor's report? No.

Mr. Sonntag: — I'm prepared to make a motion then, Mr. Chair, that we . . .

The Chair: — You've got it; I'll recognize it — the committee adopt .99.

Mr. Sonntag: — I just move the committee adopt .99.

The Chair: — And we'll follow it up.

Mr. Sonntag: — Okay.

The Chair: — The motion will read something to the effect that this committee recommends the Provincial Auditor's recommendation .99 as stated in the spring report — something of that nature. Discussion?

Mr. Toth: — Mr. Chairman, I would like to make an amendment to that motion, that this committee amend the motion . . . about my wording here:

> Recommend that the government affirm its commitment to establishing a pension commission to review the unfunded pension liabilities.

The Chair: — Thank you. Mr. Toth is going to move an amendment to the motion that states in effect that the government affirm its commitment to establish a pension commission to study the issues related to the pension plans.

Is there any further discussion, firstly, to the amendment? We have an amendment to the motion, and is there any discussion to the amendment, firstly?

The amendment states that the government establish . . . or I am putting in words in Mr. Toth's mouth? But I believe it's that the government affirm its commitment to establish a pension commission to study the many issues related to the pension plan.

Well . . . or do you want an amendment that just says strike out "consider"? I'm trying to be a lawyer here, and I'm not. If the amendment read, the government . . . That the amendment reads strike out "consider". because Mr. Sonntag . . .

Mr. Toth: — And show just . . . being an . . . just adding an affirmative.

The Chair: — Okay look at the wording. Would it meet your requirements if the amendment read to delete the word "consider"?

Mr. Toth: — Yes. And then that makes a recommendation that says, let's get on with life and establish, rather than just . . . "should" gives you the "if" or "maybe."

The Chair: — The way that the original motion reads is:

> That the committee adopts the auditor's recommendation, .99 on page 75 of the 1996 spring report.

I recognize that to mean the exact wording that is on the paper at this stage. If the amendment that Mr. Toth is proposing would say delete "consider" and "establishing" and include "establish" . . . I think that's the proper English. We can't just delete "consider" because it would be "should establishing," right?

Mr. Toth: — Right, yes. Basically an affirmative, "should establish."

The Chair: — So you delete "consider establishing" and insert "establish" . . . would be your amendment.

A Member: — Yes, okay.

The Chair: — Is that understood, where we at? Is there any further discussion on the amendment? If not, are you ready for the question? All those in favour of the amendment. Opposed? It's carried.

Then are you ready for the question to the motion as amended? All those in favour of the motion as amended? That's carried.

I now note that it being 11:30 and there is no further business in front of the committee today, I declare the meeting adjourned.

The committee adjourned at 11:35 a.m.