At a Glance

2 Information on Unfunded Employee Retirement Benefits and Compensated Absences

Summary

Employee retirement benefits and compensated absences have existed for many years and have accumulated over time. These benefits and compensated absences represent a significant liability and pose major risks to Nova Scotia; the sustainability of these plans should be assessed on an ongoing basis.

As at March 31, 2014, the liability related to these plans totaled approximately $1.8 billion. These obligations are unfunded, meaning money has not been set aside by the province to pay for benefits. Payments made under these plans will have to be paid through future taxes and other revenues.

The obligation is subject to risks, including borrowing rates and rising health care costs. These risks impact the future finances of Nova Scotia as assumption changes can have a significant impact on the obligations and annual costs associated with these plans.

The liability for retirees' health benefits is the most significant component of the employee retirement benefits obligation. It represents $1.1 billion of the total $1.8 billion obligation. There are variances in the benefits across public service sectors. For example, the province pays 100% of retirement health benefit premiums for retired teachers but pays a portion of premiums for retired civil servants.

Retiring allowances accrued for both union and non-union management and staff in the public sector totaled $373 million and are fully paid by the province. Long-term workers could receive a significant one-time payment of as much as one half-year of pay upon retirement, in addition to their pension entitlements. There are differences in retiring allowances provided to retirees in the public service sector, health sector and education sector.

There is also a liability for earned, but unused, sick time in the health and education sectors, although the amount of unused sick time that may be carried over varies by sector. This obligation totaled $202 million at March 31, 2014. Although there is no cash payment associated with use of accumulated sick time, and unused amounts expire on retirement, there is still an obligation for these amounts that must be recognized while the individual is employed with the province.

Our intent with this chapter is to provide information to Nova Scotians on the details of benefits received by employees, how benefits are earned, and the risks and costs associated with providing these obligations.

2 Information on Unfunded Employee Retirement Benefits and Compensated Absences

Background

Employee retirement benefits and compensated absences have created a significant financial obligation

2.1 Government sponsors several employee benefit plans including a number which provide retirement benefits and compensated absences. Retirement benefits include retirement health benefits and retiring allowances. Compensated absences include accumulated sick leave, workers' compensation and long-term disability. These arrangements have arisen from various past agreements and decisions and have created a significant financial obligation to Nova Scotia.

2.2 The province's obligation for these plans totaled $1.8 billion at March 31, 2014. While appropriately accounted for, no funds have been set aside to pay these amounts, with the exception of long-term disability, which is paid from the province's fully-funded, long-term disability trust fund.

2.3 These plans represent almost 69% of the total obligation owed for all employee retirement benefits, including pensions. Contributions, interest costs, and the impact of changes in other assumptions related to these benefits were $156 million in 2013-14, about 24% of the total expense for all pension, retirement and other obligations. Employer contributions made by the province to other employee retirement benefits, and compensated absences, either directly or through health authorities and school boards, totaled $66 million for the year ended March 31, 2014.

2.4 Our Office conducts the annual audit of the province's consolidated financial statements. We are satisfied the obligation for these benefit plans is fairly presented in accordance with Canadian accounting standards for the public sector.

2.5 Most Canadian jurisdictions offer one or more of these benefits to their public sector employees. A summary of plans offered throughout the country, including by the federal government, is included in Appendix A.

Chapter Objective

2.6 We do not question the merit of having these programs, or the decisions made by past governments to put these benefits in place. These decisions and actions reflect government policy. Our objective in this chapter is to provide information on the ongoing impacts of such decisions, including the risks associated with the resulting obligations. This chapter is for information purposes only and is not as the result of an audit. We met with senior government staff to obtain information on government's short-term and long-term plans for these obligations, including information on whether government has considered their sustainability.

2.7 In this chapter, we provide detailed information on certain unfunded employee retirement benefits and compensated absences. These plans represent a significant liability to the province. As these plans are unfunded, there are risks associated with financing these plans, mainly due to the variability in their underlying assumptions. In addition, the annual cost of these plans, either through contributions, as interest costs resulting from these obligations, or as the valuation adjustment to recognize the impact of changes in assumptions, is significant and poses a risk both to their sustainability, and to the province's annual operating results.

2.8 The following table includes summary information on the province's employee benefit plans, including current year service costs related to each plan (that is, the cost accruing to the government for employees' service in the last fiscal year) and the interest charges in carrying these liabilities.

	Post-Employment Benefits				Compensated Absences		Total
(in thousands)	Retirement Health Benefits	Retiring Allowance	Employee Retirement Incentive Plans (1)	Other Employee Future Benefit Plans	Sick Leave Plans	Other (2)	
Liability, March 31, 2014	$1,094,319	$373,319	$133,349	$4,667	$202,319	$46,811	$1,854,784
Employer contributions	$19,907	$15,001	$2,221	$134	$15,149	$13,184	$65,596
Interest charges	$42,234	$16,055	$5,722	$164	$8,001	$680	$72,856
Pension valuation adjustment*	$14,917	$18,562	$3,418	$26	$6,475	$288	$43,686
Total Expense	$77,058	$49,618	$11,361	$324	$29,625	$14,152	$182,138

*Pension Valuation Adjustment is an adjustment due to changes to pension valuation not attributed to employer contributions or debt service costs. These generally consist of amortization of net actuarial adjustments and current service cost adjustments.

(1) Retirement incentive plans were offered to certain employees to bridge them to retirement. The last plan offered was in 1994.
(2) Other compensated absences consists of Long-Term Disability and Worker's Compensation.

Significant Observations

Unfunded Employee Retirement Benefits and Compensated Absences

2.9 *Introduction* – The most significant obligations associated with employee retirement benefits and compensated absences are unfunded plans such as:

- retirement health benefits ($1.1 billion);
- retiring allowances ($373 million); and
- accumulated sick leave ($202 million).

2.10 Other plans totaled about $125 million at March 31, 2014, making the total liability $1.8 billion.

2.11 It is important to note that, while the liability associated with allowing certain employees to accumulate unused sick days has been recognized, there is no payment (cash flow) when these days are used. The liability reduces by the amount of accumulated days used each year. Unused days are forfeited when employment ends.

2.12 Benefits are provided to union and non-union management and staff in the province's public sector for future health costs, service awards and other benefits. The liability represents the present value of future payments to be made over a future period of time, or at a single point in time in the future, under each of these arrangements. Several of these benefits are included in various collective agreements. These benefits are also provided to certain excluded and non-bargaining unit employees, including management and staff in government departments and agencies, health authorities and school boards.

2.13 Amounts have increased substantially over the past five years, particularly the obligation for retirement health benefits which has increased by almost 43%. Retiring allowances have increased almost 20% in the same period. Accumulated sick leave has only been recognized as an obligation since 2012-13; it has increased approximately 7% during this two-year period.

($ in millions)	2009-10	2010-11	2011-12	2012-13	2013-14
Retirement Health Benefits	$766	$928	$975	$1,040	$1,094
Retiring Allowances	$312	$323	$333	$360	$373
Accumulated Sick Leave	N/A	N/A	N/A	$188	$202

2.14 *Estimated costs to the province when an employee retires* – For information purposes only, we have provided an example of what an employee would receive in the initial year of retirement from the public service, using the following assumptions.

- $75,000 salary at the time of retirement
- Worked in their respective sector for 30 years
- Not deferring their pension
- Retiring at age 55
- Estimated health benefit premiums of $1,800

Amount Received on Retirement	Public Sector
Retiring Allowance – one-time payment	$37,500
Pension – annual	$42,422
Retirement Health Benefits	$1,170

The $1.8 billion liability is unfunded and will be paid through future taxes and other revenues

2.15 *Unfunded plans* – With the exception of obligations for long-term disability recognized in the province's Long-Term Disability Plan Trust Fund, none of the plans discussed in this chapter are funded. This means no money has been set aside by the province to pay for these obligations as they become due. Each year, the net cost of offering these plans is included in operations and contributes to the annual surplus or deficit of the province. Payments made through these plans will have to be funded through taxes and other revenues. An increase in the liability also contributes to the province's total net debt position.

2.16 *Risks to unfunded plans* – As these plans are unfunded, investment risks such as credit risk and liquidity risk are not applicable. The most significant risks impacting these plans are borrowing rates and changes in assumptions.

These benefit costs carry risks to the future finances of Nova Scotia

2.17 The liability for each of these plans is determined by an actuary using assumptions approved by government, although actuarial practice is to assess these assumptions as reasonable. Significant assumptions include mortality, salary increases, and inflation rates. Changes to any of these assumptions can have an impact on the province's future liability, and on the current year's expense. Although the province's actuaries have not calculated the impact of changes to each assumption, there is information in the annual valuation reports on two assumptions – the discount rate, which is applicable to all these obligations, and the health care escalation factor, which is applicable to retirement health care benefits only (discussed later in the chapter).

2.18 *Discount rates* – The obligation for employee retirement benefits represents the current estimated costs today to provide these benefits at a date in the future, or as is the case for retirement health benefits, a series of payments over a period of time. As with any liability, there is a cost associated with carrying this debt over time. To determine the cost today associated with what employees have earned but will only be provided in the future, a discount rate is used. The discount rate is based on the province's cost of borrowing. This is because payments made on behalf of these plans are made through the province's daily operations, and these operations determine borrowing requirements. The annual cost of owing these benefits is included in the province's debt servicing costs. Small changes to the discount rate used to estimate the current obligation affect the debt servicing costs.

2.19 The province's actuaries have not provided a sensitivity analysis on changes to the cost of borrowing (the discount rate). However, the valuations for each of these plans for the year ended March 31, 2014 included the impact on the April 1, 2013 balances due to a change in the cost of borrowing from 4.3% to 4.1%. The following table notes the impact of the reduced cost of borrowing on retiring allowances, retirement health benefits and accumulated sick leave.

Experience Gain or Loss Due to Changes in Discount Rate on General Revenue Fund (in thousands)	
	2013-14
Retirement Health Benefits	$35,610
Retiring Allowances	$4,291
Accumulated Sick Leave	$2,802
Total	$42,703

2.20 *Planning* – We met with senior staff at the Department of Finance and Treasury Board and the Public Service Commission to discuss short-term and long-term planning for these benefits.

2.21 *Annual plans* – The Department obtains annual actuarial valuations for all pension, retirement benefits, and compensated absences. These valuations provide current service costs and other annual costs for each plan, as well as the year-end liability. The results are included in the province's annual consolidated financial statements. The Department of Finance and Treasury Board provides school boards and health authorities with information on their respective share of these costs because each of these entities must prepare annual financial statements separate from those of the government and must include these costs in their results.

2.22 Valuations also include cost estimates for the upcoming fiscal year. On a government-wide basis, the impact of these costs on the province's surplus or deficit, as well as on total net debt, is estimated for preparation of the annual budget. In addition, while the annual planning process for retirement health benefits includes the results and estimates from these valuations, each of the public service, health and education sectors also has a benefits committee which reviews the annual costs provided by the respective external benefit provider. The committees determine whether rate or benefit changes are needed. Staff indicated that the benefit use of these plans has been fairly consistent.

2.23 *Long-term planning* – Provision for retirement and sick leave benefits, are included in various public sector union agreements. Some retirement benefits are provided outside of union agreements for excluded or non-bargaining unit employees. These benefits apply to individuals who receive pension benefits from the Public Service Superannuation Plan. Provision for these benefits is provided by the Public Service Commission, subject to the approval of the Governor-in-Council, as noted in the Civil Service Act, section 7 and in the General Civil Service Regulations. Accordingly, any changes to the majority of these benefits would usually be achieved through cabinet approval. Changes to certain benefits covered in union agreements are often extended to non-bargaining employees if these employees receive a similar benefit. Benefits extended to the Canadian Union of Public Employees (CUPE) and similar to those provided to civil servants, are provided through a past Order-in-Council, not through the Civil Service Act.

2.24 *Sustainability* – Senior staff at the Department of Finance and Treasury Board informed us that government has recently begun a review of the long-term sustainability of certain benefits.

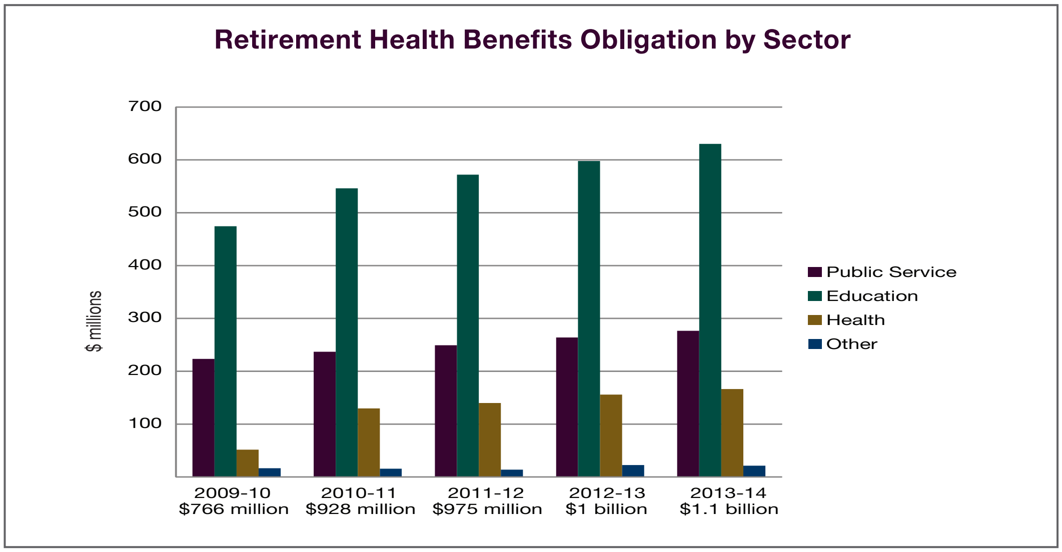
2.25 The long-term sustainability of these benefits is a critical component in government's efforts to balance the budget and in overall program planning. The sensitivity analysis provided by the province's actuaries on health care escalation, as noted below, and our summary of changes to the liability for these plans due to a change in the cost of borrowing between 2013 and 2014, indicates assumption changes can have a significant impact on the province's financial position.

2.26 We believe responsibility should be assigned for assessing the ongoing sustainability of these plans. Government needs to evaluate how these benefits will be addressed on an ongoing basis and develop a plan to mitigate the associated risks. For example, government may consider funding these plans – setting aside assets – so that risks associated with borrowing rates may be offset by changes in asset values. Any changes should come from a comprehensive analysis based on overall compensation packages.

2.27 *Sector composition* – Three sectors comprise the most significant portion of retirement benefit obligations: public service (union and non-union civil servants and CUPE highway workers), health and education. These sectors represent 88% of the total accrued benefit liability for non-pension benefits and compensated absences (86% of the net benefit plan expense for 2013-14). Eligibility, contributions and benefits vary by sector and, within each sector, by union agreement or employment terms and conditions.

2.28 The following paragraphs provide detailed information of each for these plans, by sector, including growth over the past five years.

Retirement Health Benefits



Retirees' health benefits obligation totals $1.1 billion

2.29 Retirement health benefits have an accrued benefit obligation of $1.1 billion, or 59% of all other employee retirement benefit obligations, representing the most significant component of all post-employment benefits. In 2013-14, debt servicing costs associated with retirement health benefits were $42 million or almost 58% of total non-pension debt servicing costs. The total annual cost, including employer contributions, related to retirement health benefits for 2013-14 for the public service, health and education sectors was $77 million. This obligation has increased by almost 44% over 5 years.

Nova Scotia Teachers' Pension Plan retirees pay 0% of health care premiums; other public sector retirees pay a portion of premiums

2.30 As can be seen from the table above, the majority of the obligation at March 31, 2014 relates to those in the education sector. Although there are variations in the number of active and retired members in the various sectors, as seen in the table below, the amount owing per member is almost double for the education sector in relation to the public sector, and 2.5 times that of those in the health sector. The significant difference in the obligation related to the education sector is presumed to be because annual premiums are funded 100% by the province, as compared to the province funding a portion of premiums in the other sectors.

	2013-14 Retirement Health Obligation	Number of Members Used in Valuation	Estimated Retirement Health Benefit Obligation per Member 2013-14
Public Sector	$276 million	25,731	$10,726
Health Sector	$166 million	20,164	$8,232
Education Sector	$630 million	30,222	$20,846

2.31 There are two components of health benefits provided to retired public sector employees: the annual premium paid to an external service provider to deliver these benefits, and the total liability to the province for future costs related to these amounts. The annual cost to the province varies by the collective agreement governing the various members, or by the Civil Service Act or Order-in-Council in the case of the public service (including CUPE). The province's share of annual premiums for retired employees receiving benefits is identified in the table below.

Sector	Authority	Who Pays Premiums	Administrator
Public Service	Civil Service Act Order-in-council	65% funded by the province and 35% funded by the retiree	Public Service Commission
Health	CAW/CUPE	Province pays fixed amount of $1,055 for single coverage, $2,144 for couple coverage and $2,713 for family coverage – any excess of premium is paid by the retiree.	Health Association Nova Scotia and some district health authorities
	NSGEU/NSNU	65% funded by the province and 35% funded by the retiree	
	Non-union Employment Terms and Conditions	The premium paid by the province varies between fixed rate coverage and 65% depending on personnel type	
Education	Nova Scotia Teachers Union Agreement	100% funded by the province	Johnson Insurance Inc.

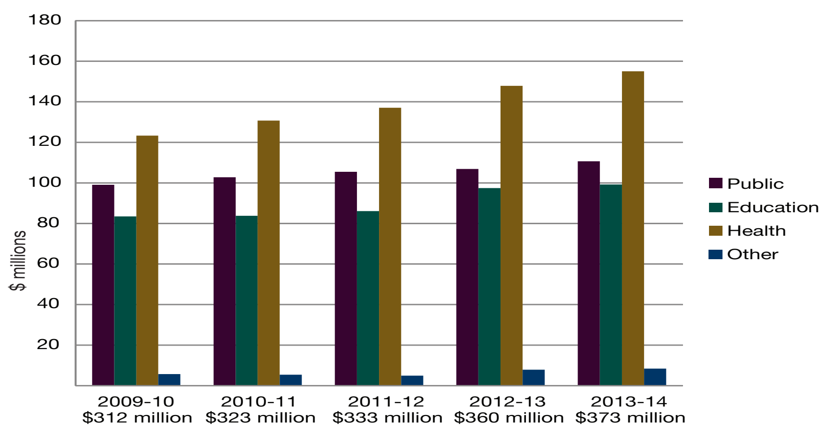
2.32 *Health care escalation factor* – The obligation related to retirement health benefits is estimated using several assumptions, including mortality rates and health care inflation assumptions. As people live longer and health care costs rise, so do the costs associated with providing retirement health benefits in the future, and in turn the related obligation.

2.33 In their valuation reports, actuaries indicate that different assumptions or scenarios could result in very different conclusions. Actuaries generally do not provide sensitivity analyses. However, the actuaries' reports on retirement health benefits at March 31, 2014 included a sensitivity analysis related to the rising costs of health care. These costs impact the escalation factor (or inflation factor) used in determining the liability for retirement health benefits. The reports include a high-level sensitivity analysis demonstrating the impact of a 1% increase in the escalation factor. This would result in an increase to the province's obligation of approximately $224 million, as shown in the table below.

Effect of 1% Increase in Health Care Cost Trend on Obligation of the Province (in thousands)	
	2013-14
Public Sector	$49,769
Health Sector	26,953
Education Sector	147,356
Total	**$224,078**

Retiring Allowances

Retiring Allowance Obligations by Sector



The province's liability for retiring allowances (long service awards) was $373 million at March 31, 2014

2.34 The second biggest component of retirement benefits is the province's retiring allowance obligation which totaled $373 million, or approximately 20% of employee retirement benefit and compensated absences obligations at March 31, 2014. Debt servicing costs related to retiring allowances were $16 million in 2013-14, or 22% of total other employee retirement benefit and compensated absences debt servicing costs. The table above provides a five-year history of the liability for these allowances, by sector. The total liability has increased from $312 million to $373 million in that period, with 52% or $32 million, related to increases to retiring allowances in the health sector. This obligation has increased almost 20% over five years.

Retiring allowances are fully paid by the province

2.35 Retiring allowances, or long service awards, provide a lump sum payment to an employee on retirement, and are in addition to pension benefits. These awards are fully paid by the province. Retirement allowances form part of an overall compensation package.

2.36 Each of the public service, health and education sectors offers various retiring allowances. Benefits accrue during an employee's career, and the amount received on retirement varies slightly by sector. However, all are the same in that a retiring allowance can only be obtained once an employee retires under applicable pension rules and upon immediate acceptance of their pension. Retiring allowances can result in an employee receiving a one-time lump sum payment amounting to as much as 50% of his or her annual salary.

2.37 The following table details various retiring allowance provisions by sector and enabling authority, and notes each benefit's administrator.

<table>
<tr><th>Sector</th><th colspan="2">Authority</th><th>Benefit</th><th>Administrator</th></tr>
<tr><td>Public Service*</td><td colspan="2">Civil Service Master Agreement

CUPE Highway Workers Collective Agreement

Crown Attorneys' Agreement

General Civil Service Regulations</td><td>One week's pay for each year of full-time service to a maximum of 26 weeks of benefits</td><td>Department of Finance and Treasury Board</td></tr>
<tr><td>Health</td><td colspan="2">Various collective agreements</td><td>One week's pay for each year of full-time service to a maximum of 26 weeks of benefits</td><td>District health authorities</td></tr>
<tr><td rowspan="2">Education</td><td rowspan="2">Various collective agreements</td><td>Teachers (hired after July 31, 2002)</td><td>1% of annual salary at retirement multiplied by years of service, to a maximum of 30 years</td><td rowspan="2">Regional school boards and Nova Scotia Community College</td></tr>
<tr><td>Teachers (hired before August 1, 2002)</td><td>Benefits determined by provisions of the collective agreement with the applicable school board</td></tr>
<tr><td colspan="5">* Includes a small number of Health and Education sector employees grandfathered into the plan.</td></tr>
</table>

2.38 *Transition allowances to deceased or former Members of the Legislative Assembly* – A transition allowance is payable to any member who dies while being a member, does not re-offer, resigns, or who is defeated. The allowance is payable in equal amounts over twelve months, or as a lump sum payment. These allowances are not included in the employee retirement benefit obligation and are outside of any pensions members may receive.

2.39 Regulations to the House of Assembly Act note that the entitled member

"shall be paid a transition allowance equal to the product of:

a) one twelfth of the person's number of months of service as a member of the House; and

b) one twelfth of the annual indemnity and allowance for a member at the rate in force immediately before the person ceased to be a member,

c) but in any case not less than twenty-five per cent or greater than one hundred per cent of the annual indemnity and allowance referred to in clause (b)."

2.40 The impact of these regulations can best be shown through the following examples.

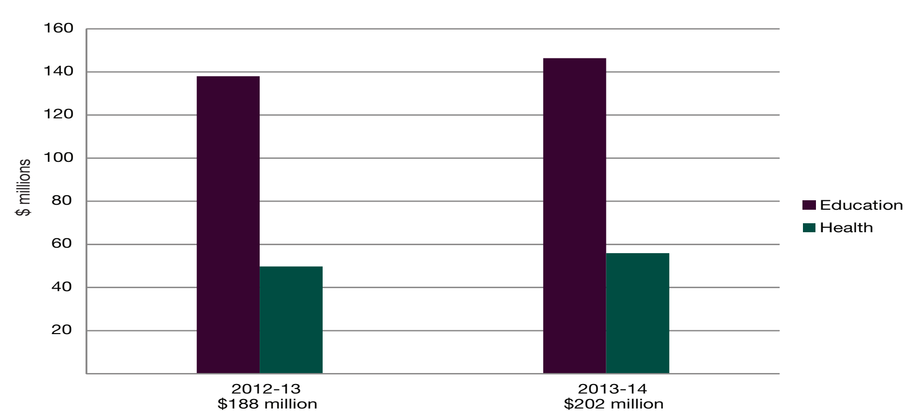
- Example 1: A Member making $89,235 and with 15 years of service would get $111,544 (180 months x 1/12) x (1/12 x $89,235). However, a Member is not entitled to more than the annual indemnity of $89,235.

- Example 2: A Member making $89,235 and with 4.5 years of service would receive $33,463 (54 months x 1/12) x (1/12 x $89,235).

2.41 For the year ended March 31, 2014, transition allowances of $1,657,818 were paid to 29 MLAs, an average of $57,166. These transition allowances are not accrued as liabilities.

Sick Leave

Accumulated Sick Leave Benefit Obligations by Sector



NOVA SCOTIA

Unused sick days accrued in the health and education sectors have resulted in a $202 million liability

2.42 Certain employees in the health and education sectors are able to accumulate unused annual sick leave days in an accumulated bank to a specified maximum number of days to be used in the future. Accumulated days are not paid out at any time and cannot be cashed out upon retirement. There is no cash payment if banked days are used during a year, except to the extent an organization, for example a hospital or school, pays to back-fill a position. However, accumulated sick days result in a financial obligation for Nova Scotia.

2.43 The accumulated benefit obligation related to unused sick days in the health and education sectors is $202 million, or almost 11% of all other employee retirement benefit and compensated absences obligations. Annual debt servicing costs related to accumulated non-vesting sick leave benefits are $8 million or almost 11% of total other employee benefit and compensated absences debt servicing costs. The obligation, which was recognized for the first time at March 31, 2012, for employees in both the health and education sectors has increased by 7% or $14 million in the past two years.

2.44 The following table provides details of eligibility and benefits by sector.

Sector	Authority	Benefit	Administrator
Public Service	N/A – no non-vesting sick leave	N/A – no non-vesting sick leave	N/A – no non-vesting sick leave
Health	Various collective agreements	There are variations from union to union and DHA to DHA. The main benefit is as follows. • Full time employees accrue 1.5 sick days for every month, or 18 days per year • Employees may accrue up to 150 days total Unused sick leave at termination or retirement is lost	District health authorities
Education	Various collective agreements	There are slight differences for each school board. The main benefit is as follows. • Full time teachers are entitled to 20 sick days per school year • Teachers may accumulate a maximum of 195 days total Unused sick leave at termination or retirement is forfeited.	Regional school boards

2.45 Individuals in the public service are entitled to 18 sick days each year; unused days do not accumulate. In the event of illness extending beyond 3 days, employees automatically transfer to short-term illness benefits. These total 100 days per occurrence and the salary reduces to 75% after the 40th day for employees with one or more years of service. Accumulated sick leave banks provide a greater benefit after the 40th day of illness because there is no reduction in salary. Both short-term illness and accumulated sick leave banks can bridge an employee to long-term disability provisions if needed.

Appendix A

Additional Information

Comparison to other jurisdictions – Most provinces and the Federal government offer retirement benefits in addition to pensions. The following table provides an overview of non-pension benefits by Canadian jurisdiction.

Jurisdiction	Retirement Allowances	Retirement Health Benefits	Accumulated Sick Leave
Newfoundland and Labrador	✓	✓	✓
Prince Edward Island	✓	x	✓
Nova Scotia	✓	✓	✓
New Brunswick	x	x	✓
Quebec	✓	x	✓
Ontario	✓	✓	✓
Manitoba	✓	x	✓
Saskatchewan	✓	✓	✓
Alberta [1]	x	x	x
British Columbia	✓	✓	✓
Nunavut	✓	✓ Yes under federal government	✓ Yes, but not booked as amount is insignificant
North West Territories	✓	✓ Yes under federal government	✓ Yes, but not booked as amount is insignificant
Yukon	✓	✓	✓
Canada	✓	✓	✓

[1] There may be some small entities and groups that are entitled to these benefits; however, they are not material to the Public Accounts.

Recent changes in some jurisdictions' public sector pension plans and the increasing burden plans place on government finances have prompted audits by legislative audit offices. Both the Office of the Auditor General of Canada and the Auditor General of Alberta have recently completed audits on the sustainability of plans in their respective jurisdictions.

For information purposes only, the following paragraphs provide information on recent benefit changes in other Canadian jurisdictions.

Retirement health benefits – These benefits were recently under review by the federal government. The 2014-15 federal budget included results of recent cost-sharing changes to these benefits. These changes doubled the amount retired federal civil servants will pay (transitioning the cost-sharing ratio from 75% government/25% retiree contributions to 50%/50%).

Retiring allowances – In recent years, two Canadian jurisdictions have made changes to retiring allowances.

In 2011, certain federal civil servants who are members of the Public Service Alliance of Canada were given the option to accept payout of accumulated benefits, keep the pay until retirement, or a combination of both. However, benefits will no longer be earned under a new collective agreement and arrangements with other employees. The estimated annual savings to the federal government is $500 million per year.

In New Brunswick, retiring allowances were discontinued for new entrants to the non-bargaining group of employees as of April 1, 2013. Retiring allowance benefits ceased to accumulate at March 31, 2013 for management and non-union employees.

Accumulated sick leave – The federal government is currently attempting to negotiate changes to existing benefits with one of its largest unions, the Public Service Alliance of Canada. The government proposes to reduce annual sick leave to 5 days per year and introduce an unpaid seven-day waiting period before employees qualify for a new short-term illness program. The proposal also involves eliminating the accumulated sick leave bank which is estimated to be a $1.5 billion obligation.

Sick leave banks were recently removed from Ontario teachers' contracts and have been identified as an issue in municipal government operations as well.

It is evident that unfunded employee retirement benefits and compensated absences are a significant public sector issue across jurisdictions.