

## 11.

### EDUCATION AND CULTURE - TEACHERS' GROUP INSURANCE PLANS - FOLLOW-UP

#### BACKGROUND

**11.1** The Department of Education and Culture makes premium payments for medical, dental, life and accidental death and dismemberment (AD&D) group insurance benefits for active and retired teachers in the Province according to provisions of the 1994 Collective Agreement between the Minister of Education and Culture and the Nova Scotia Teachers Union.

**11.2** Premiums paid by the Department of Education and Culture, teachers and school boards are remitted to the Nova Scotia Teachers Union (NSTU) Group Insurance Fund Trustees who are appointed by the Executive of the NSTU under the provisions of a Trust Deed dated 1965. The Province started paying premiums for the life insurance and medical plans for active teachers in 1973, for the retired teachers' medical plan in 1978 and for the dental plan in 1987.

**11.3** The NSTU Group Insurance Fund Trustees (the Trustees) receive premiums and make arrangements with plan administrators and insurance carriers for insurance coverage. For the year ended April 30, 1996 the Trustees received \$10.7 million from the Province and \$7.2 million from plan members and school boards as premiums for the plans described above. The insurance carrier for the medical/dental plans is Maritime Medical Care Inc. (MMC) and Maritime Life is the current carrier for the life insurance plan.

**11.4** The Trustees are also responsible for various other insurance plans available to teachers. For those plans, premiums are generally paid by teachers and the Province makes no contribution. Among those is a salary continuation (long-term disability) plan. The premiums for the salary continuation plan are cost-shared with teachers by some school boards under the provisions of local collective agreements between the school boards and the NSTU. Currently, the school boards fund approximately 24% of the total annual premiums of \$2.5 million. The carrier for the salary continuation plan is Manufacturers Life Insurance Company.

**11.5** Section 143(1) of the Education Act, passed in 1995, includes the following:

*“The payments made by the Minister or a school board for all or a portion of the cost of any policy of insurance or any other benefits plan provided to teachers including, without limiting the generality of the foregoing, life insurance, accidental death or dismemberment insurance or medical and dental plans, are financial assistance for the purpose of the Auditor General Act and subject to audit by the Auditor General.”*

**11.6** In 1996 we conducted an audit of the insurance plans governed by the Trustees for which the Province or school boards cost share premiums with members. The results of the audit were reported to the Minister of Education and Culture on November 8, 1996 and included in our 1996 Annual Report (page 53). Our 1996 Annual Report noted that negotiations between representatives of the Department of Education and Culture and the NSTU with respect to insurance had commenced in November 1996 and were still in progress at the time of writing the Report. The Department of Education and Culture planned to raise other issues, particularly those related to governance of the plans, in the 1997 Collective Agreement negotiations.

**11.7** This Chapter summarizes the major developments from release of our 1996 Annual Report to November 1997.

## **RESULTS IN BRIEF**

**11.8** The following are the principal findings resulting from our follow-up review.

- Negotiations between representatives of the Department of Education and Culture and the NSTU commenced in November 1996 and culminated in June 1997 with the signing of a Master Agreement and several subsidiary agreements encompassing action on many of the key findings reported in our 1996 Report. As of November 1997 most provisions of the Agreement had been implemented. The Province received \$4.4 million in surplus funds from the Trustees and paid the Trustees \$179,000 in September 1997 related to a deficit in the dental plan. The Agreement included referral of outstanding matters related to the Master Life Plan to arbitration with a limit of \$775,000 on the amount of the dispute. An arbitrator has been appointed but a hearing has not yet been scheduled. The Department of Education and Culture has not yet nominated a Trustee as provided for in the Agreement pending the result of current Collective Agreement negotiations.
- On October 20, 1997 the Nova Scotia School Boards Association (NSSBA) requested our Office to undertake an audit of the salary continuation (long-term disability) plan to determine changes in the financial position of the plan subsequent to our 1996 audit including the current existence of surplus funds identified in our 1996 Report. The ability to achieve the objectives of the requested audit depends on full disclosure of financial information related to the plan to our Office by the Trustees and the insurance carrier. The Trustees and the carrier have agreed to cooperate fully with the audit which will be conducted in 1998 and included in our 1998 Report.

## **SCOPE OF REVIEW**

**11.9** The objective of this review was to follow-up on actions taken to address findings reported in our 1996 audit of the Teachers' Group Insurance Plans (see page 53 of the 1996 Report of the Auditor General).

**11.10** Our approach included discussions with management of the Departments of Education and Culture, the NSTU, and the Nova School Boards Association and review of related documentation.

## **PRINCIPAL FINDINGS**

### *Agreement*

**11.11** Negotiations on these insurance matters between representatives of the Department of Education and Culture and the NSTU commenced in November 1996 and culminated in June 1997 with the signing of a Master Agreement and several subsidiary agreements encompassing action on many of the key findings reported as a result of our audit.

**11.12** At the time of signing of the Agreement, I issued a public statement as follows:

*“The major recommendation made by our audit was that the government undertake negotiations with the NSTU to resolve these matters. The Auditor General was kept informed as the negotiations proceeded and is pleased that the audit effort has led to resolution of this matter.”*

**11.13** Key provisions of the Agreement include:

- nomination of one Trustee by the Province who will be entitled to discuss fully the financial operations of the plans with the Province;
- establishment of a new rate for premiums to be paid by the Province and school boards based on their proportionate shares of the actual costs of coverage;
- specification of the level of reserves for incurred but not reported claims;
- sharing of future deficits and surpluses in the dental and medical plans between teachers, school boards and the Province based on their proportionate shares of premiums;
- a statement that the Trustees are entitled to any future surpluses and responsible for any future deficits in the Master Life Plan;
- payment of \$4.4 million from the Trustees to the Province relating to a surplus in the medical plan which had been held by the NSTU;
- payment of \$179,000 from the Province to the Trustees relating to funding of a deficit in the dental plan; and
- referral of outstanding matters related to the Master Life Plan to arbitration with a limit of \$775,000 on the amount of the dispute.

**11.14** The financial terms of the Agreement were subject to ratification by the Supreme Court of Nova Scotia which subsequently occurred. As of November 1997 most provisions of the Agreement had been implemented. The Province received \$4.4 million from the Trustees and paid the Trustees \$179,000 in September 1997. An arbitrator has been appointed to deal with the \$775,000 related to the Master Life Plan but a hearing has not yet been scheduled.

**11.15** The Department of Education and Culture also indicated, as reported in our 1996 Report, that other issues, particularly those related to governance of these plans, would be raised by the Department of Education and Culture in the Collective Agreement negotiations taking place in 1997. Those negotiations had not concluded as at the date of writing of this Report. The Department of Education and Culture has not yet nominated a Trustee as provided for in the Agreement pending the result of the Collective Agreement negotiations.

### ***Salary Continuation Plan***

**11.16** In our 1996 Report (page 57), we reported that the Province makes no payments for salary continuation plan premiums. The premiums are cost-shared with teachers by some school boards under the provisions of local collective agreements between the school boards and the NSTU. Currently, the school boards fund approximately 24% of the total annual premiums of \$2.5 million. We also reported that the salary continuation plan generated approximately \$5 million of dividends (net of payments to the insurance carrier) from 1978-79 to 1994-95 and that there was no agreement between the Trustees and the school boards governing the disposition of those dividends.

**11.17** The salary continuation plan was not included in the June 1997 Agreement between the Province and the NSTU except in Section 5 of the Master Agreement which includes the following:

- “(a.) *The Province has no responsibility for any past, present or future deficit in or interest in or entitlement to any past, present or future surplus in the Salary Continuation Plan.*
- (b.) *The Province agrees that:*
- (i.) *it will not act as agent of, or on behalf of, Regional School Boards or any of them, in any proceeding or action which may be brought by a Regional School Board or Boards, individually or collectively, with respect to any matter relating to the Salary Continuation Plan;*
- (ii.) *it will not provide legal counsel in connection with any such proceeding or action, and will not provide additional or special funding, pay, reimburse or assume responsibility for legal fees or other costs related to any such proceeding or action.”*

**11.18** Subsequent to the release of our 1996 Report, the Nova Scotia School Boards Association (NSSBA) commenced discussions with the NSTU on the salary continuation plan. The NSSBA was authorized by the school boards making contributions to the salary continuation plan to negotiate with the NSTU on their behalf. During those discussions, questions were raised concerning the current financial position of the plans. At the time of our audit, the most recent financial statements available to us were dated April 30, 1995 and we did not review any financial information subsequent to that date.

**11.19** On October 20, 1997 the NSSBA requested our Office to undertake an audit of the Salary Continuation Plan to determine changes in the financial position of the Plan subsequent to our 1996 audit and the current existence of surplus funds identified in our 1996 Report.

**11.20** Representatives of the NSTU Group Insurance Fund Trustees subsequently raised concerns related to:

- the possible confidentiality of information on the financial position of the Plan;
- the potential impact of disclosure on the Collective Agreement negotiations which were currently in progress; and
- the potential impact of disclosure on the competitive position of the insurance carrier in the marketplace.

**11.21** The Trustees held discussions with the insurance carrier to resolve concerns of both parties related to these issues. The ability to achieve the objectives of the requested audit depends on full disclosure of financial information relating to the Plan by the Trustees and the insurance carrier. The Trustees and the carrier have agreed to cooperate fully with the audit which will be conducted in 1998 and included in our 1998 Report.

## CONCLUDING REMARKS

**11.22** We are pleased to see that the Province and the NSTU, after lengthy negotiations, reached an agreement encompassing many of the findings reported in our 1996 Report. The Agreement will improve various aspects of the accountability for Provincial contributions to these plans.

**11.23** We will be proceeding with an audit of the salary continuation plan as requested by the Nova Scotia School Boards Association. Results will be included in next year's Annual Report.

---