(8)

CHAPTER II – Economic Outlook and Fiscal Plan

CHAPTER III – Federal Underfunding of Ontarians

CHAPTER IV – Strengthening Retirement Security in Ontario

CHAPTER V – A Fair and Efficient Tax System

CHAPTER VI – Borrowing and Debt Management

MANAGING PUBLIC SECTOR PENSION COSTS

ISSUE

Pension expense is projected to decrease in the current forecast compared to what was reported in the Drummond Commission Report.

Reference: Chapter I, Section E; Table 1.8:

Differences in Projected Pension Expense versus Forecast presented in the Drummond Commission Report on the Reform of Ontario's Public Services

KEY FACTS

- The fiscal plan reflected in the 2014 Budget reflects an expected decrease in Pension Plan expense compared to the forecast presented in the Drummond Commission Report, primarily due to better than expected market returns on pension fund assets for the 2011, 2012 and 2013 calendar year, as well as the impact of collective agreements reached with teachers under Bill 115, Putting Students First Act (i.e. two-year across-the-board salary freeze).

FISCAL IMPLICATIONS

Pension Expense						**($ Billions)**
	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Commission Forecast	3.1	3.7	3.6	3.7	4.0	4.2
Current Forecast	3.0	3.0	2.5	2.0	1.7	1.5
Difference in Forecast	**(0.1)**	**(0.8)**	**(1.1)**	**(1.7)**	**(2.3)**	**(2.7)**

Note: Numbers may not add due to rounding

BACKGROUND

Pension expense is reported on a consistent basis in both the Province's consolidated financial statements and the Budget, reflecting generally accepted accounting standards for the public sector as determined by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

PSAB-based calculations of pension expense reflect, on a consolidated basis:

- the government's share of the annual cost of pension benefits earned by employees during the year;
- the government's share of gains or losses experienced by the plan;

- interest on the net pension liability or surplus;
- one-time cost of plan amendments made during the year; and
- other applicable adjustments in accordance with the accounting standards (e.g. differences in Province's year-end versus pension plan year-ends).

Actuarial gains and losses represents the changes in the value of the accrued benefit obligation and the plan assets resulting in experience different from actuarial assumptions (e.g. actual salary increases lower than assumption, changes in morality, etc.) Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the member group starting in the subsequent fiscal year in which the gains/losses are realized.

Pension expense reflects the impacts of market fluctuations on the pension plan asset values. This is the largest contribution to the change in forecast.
In addition, some of the reduction in pension expense is attributable to contracts negotiated or imposed on Teachers, AMAPCEO and OPSEU, minimizing future benefit growth in pension expense. The reduction in pension expense is also due to lower than expected inflation.

Prepared by: **Pauline Fong, Senior Analyst (416-212-4007) / Mark Rozic (416-325-5480)/ Nadine Petsche, 416-325-8027**

Branch: **Accounting Policy and Financial Reporting, Office of the Provincial Controller Division**

Details supporting Table 1.8:

($ Millions)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Commission Report						
Public Service Pension Plan and OPSEU Pension Plan	862	858	784	831	938	1,051
Ontario Teachers' Pension Plan	908	1,385	1,354	1,372	1,409	1,472
Healthcare of Ontario Pension Plan	1,123	1,227	1,231	1,301	1,370	1,456
Colleges of Applied Arts and Technology Pension Plan	206	230	232	237	233	232
Total Pension Expense	**3,099**	**3,700**	**3,601**	**3,741**	**3,950**	**4,211**
2014 Budget Forecast						
Public Service Pension Plan and OPSEU Pension Plan	845	842	840	735	665	639
Ontario Teachers' Pension Plan	895	873	507	227	(38)	(218)
Healthcare of Ontario Pension Plan	1,036	1,009	923	871	855	859
Colleges of Applied Arts and Technology Pension Plan	213	205	212	211	207	197
Total Pensions	**2,989**	**2,929**	**2,482**	**2,044**	**1,689**	**1,477**
Increase/(Decrease) from Commission Report						
Public Service Pension Plan and OPSEU Pension Plan	(17)	(16)	56	(96)	(273)	(412)
Ontario Teachers' Pension Plan	(13)	(512)	(847)	(1,145)	(1,447)	(1,690)
Healthcare of Ontario Pension Plan	(87)	(218)	(308)	(430)	(515)	(597)
Colleges of Applied Arts and Technology Pension Plan	7	(25)	(20)	(26)	(26)	(35)
Total Decrease from Commission Report	**(110)**	**(771)**	**(1,119)**	**(1,697)**	**(2,261)**	**(2,734)**

The comparison above is provided for pension expense only and excludes other post-employment and non-pension retirement benefits which are reported separately under the Provinces' OPS Pension and Other Employee Future Benefits.

COMMISSION ON THE REFORM OF ONTARIO'S PUBLIC SERVICES

ISSUE

The government is continuing to move ahead with recommendations of the Commission on the Reform of Ontario's Public Services.

Reference: Chapter I, Section E

KEY FACTS

- The government is continuing to move ahead with recommendations of the Commission on the Reform of Ontario's Public Services — over 80 per cent of recommendations are now being acted on.
- These actions are enabling sustainable transformation and supporting successful expenditure management.
- Some examples of recent action include:
  - Establishing new not-for-profit community-based specialty clinics that offer selected OHIP-insured, low-risk routine services, such as cataract and colonoscopy procedures.
  - Launching a new database on ONTransfer.ca that students can use to check how their course credits are recognized at other colleges and universities.
  - Making business tax incentives more effective, such as better targeting the Apprenticeship Training Tax Credit to help improve program completion rates and proposing to limit the small business deduction to small corporations.

BACKGROUND

The government established the Commission on the Reform of Ontario's Public Services to provide advice on how to deliver the most efficient and effective public services possible, while achieving a sustainable fiscal balance.

The Commission-appointed members were Carol Stephenson, Susan Pigott, Dominic Giroux and Don Drummond (chair).

The Commission's report, delivered on February 15, 2012, contained 362 recommendations with a view to advise on reforms that would protect healthcare and education over the long term, while working to eliminate the deficit.

KEY FACTS CONTINUED

- 2013-14 OPS Pension and Other Future Employee Benefit expense of $1,283M decreased by $236M over the 2012-13 expense of $1,519M. The decrease is primarily driven by the recognition of a gain that resulted from the plan amendments to other employee future benefits that were announced on February 18, 2014, as well as favourable claim costs assumption changes made in 2012-13 for Other Future Employee Benefit expense. The decrease is further attributed to the incorporation of 2012 investment gains plus the amortization of the 2012 gains that resulted from the change in actuarial assumptions associated with the salary freeze for the PSPP. The above is partially offset because more of the 2011 investment losses in the OPSEU plan are incorporated in the pension fund assets.

Fiscal Impact Analysis:

OPS Pension and Other Employee Future Benefits Expense
Table 1

($ Millions)

	Actual 2011-12	Actual 2012-13	Interim 2013-14	Plan 2014-15
2014 Other Employee Future Benefits	594	674	441	330
2014 Public Service Pension Plan	508	584	544	610
2014 OPSEU Pension Plan	198	261	298	230
2014 Budget	**1,300**	**1,519**	**1,283**	**1,170**
2013 Other Employee Future Benefits			630	650
2013 Public Service Pension Plan			583	485
2013 OPSEU Pension Plan			303	261
2013 Budget			**1,516**	**1,396**
Decrease in Other Employee Future Benefits			(189)	(320)
(Decrease)/Increase in Public Service Pension Plan			(39)	125
Decrease in OPSEU Pension Plan			(5)	(31)
Decrease in Fiscal Plan			**(233)**	**(226)**

BACKGROUND

The OPS Pension and Other Employee Future Benefits expense includes Public Service Pension Plan (PSPP) expense, OPSEU Pension Plan expense, and other retirement benefits expense (dental, basic life insurance, supplementary health and hospital benefits for retired employees).

Expenses reported in both the Province's Consolidated Financial Statements and the Budget includes expenses of controlled organizations and is determined consistently in accordance with recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

The PSAB basis for calculating retirement benefits expense (including pension) reflects the government's share of the cost of retirement benefits earned by employees during the year with adjustments to reflect the government's share of gains or losses experienced by the plan, interest on the net retirement benefits liability or surplus, one-time cost of plan amendments made during the year and other applicable adjustments.

The employer's cash contribution to a retirement benefit plan in a particular period does not represent retirement benefits expense on a PSAB basis. This contribution is calculated through an actuarial valuation for funding purposes and ensures that a retirement benefits plan has sufficient money to pay for its obligations when they become due.

Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the employees (11.1 years for PSPP and 12.3 years for OPSEU) starting in the subsequent fiscal year. For example, the investment gains in 2012-2013 will be reflected in pension expense starting in fiscal 2013-14.

On February 18, 2014, the Ministry of Government Services announced changes to the eligibility criteria and a cost sharing model for retiree benefits (Other Employee Future Benefits) applicable to members of the OPSEU Pension Plan and Public Service Pension Plan. These changes are as follows:

- Change the eligibility period for retiree benefits from 10 to 20 years commencing on January 1, 2017. Members who have less than 10 years pension credit on or after Jan. 1, 2017 will now need to meet both of the following criteria in order to be eligible for post-retirement benefits; (i)20 years pension credit; and (ii) retirement to an immediate unreduced pension to be eligible for post-retirement benefits

- Change in the cost-sharing model for post-retirement benefits. It now requires that all employees retiring on or after January 1, 2017 to pay 50% of their benefits premiums. Currently the Province pays 100% of the premiums. If an employee commences receipt of a pension before Jan. 1, 2017, with 10 years pension credit, any post-retirement benefit premium would continue to be 100 per cent employer paid.

Prepared by: **Khalida Noor, Senior Analyst, 416-325-0528 / Mark Rozic, Manager, 416-325-5480**

Branch: **Accounting Policy and Financial Reporting, Office of the Provincial Controller Division**