Pension Asset Expert Advisory Panel

Briefing Supplementary Report

March 20, 2017

Objective

To provide background on the Pension Asset Expert Advisory Panel’s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to two additional plans.

Background

- In our Report released on February 13, 2017, the Panel provided advice and recommendations on how PSAS applies to the net pension assets of two pension plans the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employee's Union Pension Plan (OPSEUPP).
- In this second report, we are providing our advice and recommendations with respect to the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP).
- Neither HOOPP nor CAATPP have net pension assets for accounting purposes yet but it is anticipated that both will be in an asset position in the near future.

Background

- Panel was provided with briefings and documents (relevant legislation, plan texts, sponsor agreements) and met with executives of both Plans to assist members to fully understand the facts and circumstances of the Plans.
- Panel performed its own independent analysis of those documents and the legal, actuarial and accounting issues and reached its own conclusions.
- Panel considered guidance in PSAS specifically on Retirement Benefits and other relevant sources referenced in the first report

Nature of Plans

- Panel concluded that like OTPP and OPSEUPP, HOOPP and CAATPP should be classified for accounting purposes as Joint Defined Benefit Plans (JDBP).
- The HOOPP employer sponsor is the Ontario Hospital Association (OHA) and the CAATPP employer sponsor is the College Employer Council (CEC), not the government. Government has no control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses.
- Plans are funded by contributions from the individual hospitals/colleges that participate in the plans and their employees.
- Plans are multi-employer plans because contributions by one employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer.

Accounting for the Plans

- Separate financial statements of individual colleges and hospitals:
  - Participating employers in multi-employer plans account for them as defined contribution plans, even if they are defined benefit (DB) plans, because the information to apply DB accounting is usually not available.
  - Hospitals/colleges recognize expense for contributions made/due but any liability or asset is not recognized.
- Government recognizes both plans as DB in Public Accounts based on the proportion of active plan members employed by hospitals/colleges it consolidates.
- Panel was not asked to review current policy to consolidate the Plans so the following advice is based on that policy.

Recognition of asset

Panel conclusions:

- Net pension asset meets the definition of an economic resource because:
  - accounting surplus exists, and
  - future economic benefit is available to government if contribution levels are reduced.
- Net pension asset should be recognized in the Province's financial statements in the same way as the net liability.

Measurement of asset

- Retirement benefits standard states that a Sponsor measures the benefit of a surplus by the extent to which it can either take assets out of plan or reduce future contributions
- Unilateral control not necessary for asset recognition
- But government is not a party to joint control because it does not have any influence in the decision-making of sponsors with respect to future contribution levels

Measurement of asset

Panel conclusions:

- Valuation allowance is required for accrued benefit asset recognized in the Public Accounts for both Plans
- Allowance likely to be for the full amount of the asset unless contribution levels below current service cost are fixed by agreement of Sponsors
- When surplus is used for benefit improvements or to reduce employer contributions, government will recognize benefit as valuation allowance is reduced.

Background Memo

- In addition to the two Reports, the Panel has provided the government's professional accounting staff with advice on issues to be considered in documenting the accounting basis for recognizing the assets and liabilities of HOOPP and CAATPP (and possibly other multi-employer plans for which the employer sponsors are consolidated).
- Reaching a conclusion on the rationale for consolidating the Plans may affect whether all or only a portion of the Plans is recognized. Some measurement basis other than consolidation might be adopted if the accounting is based on contractual arrangements other than plan sponsorship.