EMPLOYMENT BENEFITS – July 31

10:30 a.m. – 12:00 a.m.

Highlights

Purpose:

To provide background on Ontario's review of PS 3250 and PS 3255 and other pension plan issues.

Summary:

(Summary of item and Ontario's position)

Ontario considers that pension standards should reflect the long-term nature of pension plans and result in information that best supports (internal and external) users' needs. Recognition of short-term changes would not fairly reflect the impact on the government's financial position of these plans which are long-term in nature.

Unilateral control is not necessary for asset recognition. The Province controls access to the accounting surplus – the Province has shared control of the surplus with the Employee Sponsors for its JDBP.

An update on PSAB's review of PS 3250 *Retirement Benefits* and PS 3255 *Post-employment Benefits, Compensated Absences and Termination Benefits*, and discussion on current pension issues being faced by jurisdictions.

PSAB's Employee Benefit Project

Background:

- Section PS 3250 was revised and issued in September 2001. Section PS 3255 was issued in May 2002. No changes have been made to either Section PS 3250 or Section PS 3255 since 2001 and 2002, respectively, other than those of an editorial nature.
- PSAB's project is directed at developing a new, comprehensive Handbook Section on employment benefits which will replace existing Sections PS 3250 and PS 3255. Due to the complexity of the issues involved, PSAB decided to undertake this project in two phases. Phase I will address specific issues related to the measurement of employment benefits, including the deferral provisions and the discount rate guidance in the standards.
- An ITC on the deferral provisions in Sections PS 3250 and PS 3255 was issued in late 2016. An ITC on the guidance in the standards on discount rates is expected to be issued by PSAB later in 2017.

Ontario's views:

- Ontario supports PSAB's efforts to review Sections PS 3250 and PS 3255 considering these standards have been in effect for over 15 years and it is important to ensure that Canadian public sector pension plans remain current and reflect additional experience gained since original implementation.
- With respect to the ITC on deferral provision, the Province of Ontario complies with the deferral provisions in Sections PS 3250 and PS 3255 as follows.
    - For plan assets: The Province of Ontario values sponsored and joint sponsored pension plan assets by adjusting to market value over a period of five years in accordance with Section PS 3250, paragraph .035 (i.e. at market related value). Unexpected returns associated with a change in value of plan assets are included as a component of the actuarial gains and losses. Actuarial gains and losses are amortized to the statement of operations over the expected average remaining service life (EARSL) of the related employee group.
    - For accrued benefit obligations: Changes in actuarial assumptions and experience adjustments are also included as a component of the actuarial gains and losses. The Province accounts for actuarial gains and losses on pension plans and for other employee future benefits by amortizing these amounts over the EARSL of plan members for each respective plan in accordance with Section PS 3250, paragraphs .061 and .062 and Section PS 3255, paragraph .24
- Ontario considers that pension standards should reflect the long-term nature of

pension plans and result in information that best supports (internal and external) users' needs. Recognition of short-term changes would not fairly reflect the impact on the government's financial position of these plans which are long-term in nature.

- Furthermore, Ontario considers that the elimination of the deferral provisions would result in an immediate impact of paper gains or losses on the government's statement of operations, net debt and accumulated surplus/deficit. Ontario does not believe that such volatility especially on the statement of operations under a balanced budget framework would service the 'public interest'.
- As a result:
    - Ontario considers the current deferred recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations to be most appropriate in meeting user needs and serving the public interest.
    - Ontario supports continuing to allow choice to value plan assets at market value or market related value as allowed in Section PS 3250.
- Ontario finds it a challenge to review and comment on elements of Sections PS 3250 and PS 3255 in isolation without consideration as to the overall direction being taken in PSAB's overall project. It is also a challenge as PSAB is reviewing its reporting model through its Concepts Underlying Financial Performance project.

<u>Current pension issues facing Ontario</u>

Background:

- The Province sponsors several pension plans. It is the sole sponsor of the Public Service Pension Plan (PSPP) and joint sponsor of the Ontario Public Service Employees Union Pension Plan (OPSEUPP) and the Ontario Teachers' Pension Plan (OTPP). In addition to the Provincial sponsored plans, pension benefits for employees in the hospital and colleges sectors are provided by the Healthcare of Ontario Pension Plan (HOOPP) and the Colleges of Applied Arts and Technology Pension Plan (CAATPP) respectively, and are included in the Province's financial statements.
- In relation to the 2015-16 Public Accounts for the Province of Ontario, the Auditor General of Ontario challenged the Province's previous accounting for OTPP and OPSEUPP.
- The AG disagrees that the surplus in OTPP is a reportable asset to the Province on the basis that:
    - there is no legally enforceable unilateral right to the asset, and in the absence of that,
    - no agreement was in place at March 31, 2016 with the Ontario Teachers' Federation (OTF) to reduce future contributions
- A pension asset expert panel was appointed in late 2016 to provide advice to the Province in applying PSAS to jointly sponsored and multi-employer pension plans.

Ontario's views:

- OTPP and OPSEUPP are JDBP as the risks and rewards are shared between the employee and employer sponsor. Section PS 3250 requires the government to account for its portion of a JDBP. No distinction is made as to whether the plan is in a surplus or deficit position.

- The definition of an asset references “control” over an economic resource in Section PS 1000 but does not address “shared control”. However, the term is included in other PSAB standards, for example relating to government partnerships. Unilateral control is not necessary for asset recognition.
- The Province controls access to the accounting surplus – the Province shares control of the surplus with the Employee Sponsors. In OTPP, the Sponsors must agree on how the surplus will be used. If they don’t agree, the process to be followed to reach a decision is set out in the plan. The only condition is that the surplus must be shared “equitably,” or fairly. Historically, surpluses have been shared approximately 50/50 over time, though not necessarily in each period. In OPSEUPP, funding surpluses are allocated 50/50, and each sponsor is free to use its allocation for benefit improvements or contribution reductions as it sees fit. This indicates 50/50 sharing of surpluses is the principle.
- The accounting surplus exists as the result of past transactions and events – service rendered by the employees, contributions made by both the employees and employer, and investment earnings.
- Therefore, the Province expects to benefit from the reported pension assets through reduced contributions and has performed the required pension asset ceiling test to confirm that the Province’s estimated asset value is not impaired.
- Uncertainty relating to OTPP’s pension surplus relates to measurement.
- The pension expert panel supported the conclusions of Ontario regarding its accounting for JDBP.
- With regards to its multiemployer pension plans HOOPP and CAATPP, Ontario (and supported by the pension panel) concluded as sponsor, the Province should recognize and measure the plans using the guidance for a defined benefit plan. It was also determined a full valuation allowance be recorded for any net pension asset recognized as it does not have control or joint control over the decisions regarding contribution levels or benefit changes.
- The pension expert panel identified the following areas for PSAB to consider:
    - Inconsistencies between the employment benefit standards and other standards in the PSA Handbook. For example, the deferral mechanisms in Section PS 3250 are inconsistent with the definitions of assets and liabilities and with the recognition guidance in FINANCIAL STATEMENT CONCEPTS, Section PS 1000.
    - Application of the guidance on defined benefit plans to joint defined benefit plans, specifically whether to apply the standard’s measurement guidance to the plan as a whole or to the government’s portion of the plan.
    - How “minimum contributions” and “regardless of any surplus” should be interpreted in the context of the Asset Ceiling Test, including whether the surplus considered is a funding surplus or an accounting surplus.
    - Significant differences can exist between the financial position of a plan reported in its own financial statements and that reported in the financial statements of the government sponsor, largely because of different discount rates required by different accounting frameworks. PSAB should consider the concepts underlying the discount rate used in measuring pension obligations for accounting purposes, and whether additional disclosures regarding the purpose of the accounting valuation compared to a funding

valuation may be helpful to users of government financial statements.

  - A review of the valuation allowance guidance.
  - A review of the guidance on accounting for multi-employer plans.

Plan Forward:

- Ontario will recognize at March 31, 2017 its portion of the accounting surplus for its JDBP and multi-employer pension plans for which it expects to benefit through reduced contributions subject to any valuation allowance.