Office of the Provincial Controller Division

38th Annual Comptrollers' Conference Employment Benefits

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Support for PSAB's Project

- Support for PSAB's efforts to review Sections PS 3250 and PS 3255:
  - Standards have been in effect for over 15 years
  - It is important to ensure that accounting guidance related to Canadian public sector pension plans remains current and reflects additional experience gained since the original standards were developed

Ontario's Feedback

- With respect to PSAB's Invitation to Comment on deferral provisions:
  - The Province of Ontario complies with the current deferral provisions in Sections PS 3250 and PS 3255
  - 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 fluctuations do not reflect the long-term nature of pension plans and would not enhance the fair reporting of the financial position of public sector entities
  - Ontario anticipates 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
  - Similar to Ontario's position on the Financial Instruments standard, the introduction of volatility associated with short term fluctuations (paper gains and losses) does not better reflect the economic substance of the government's activities and would not be in the public interest when taking balanced budget legislation into account

Ontario's Feedback

- As a result:
  - The status quo (current deferred recognition of the changes in the value of the accrued benefit obligation and plan assets in the statement of operations) is the most appropriate in reflecting the economic substance of the government's activities and the financial position of the government
  - Status quo measurement for pension expense is effective in meeting user needs and serving the public interest (could be supplemented with additional note disclosure)
  - Ontario supports continuing to allow choice to value plan assets at market value or market related value as allowed in Section PS 3250
- The ability to provide value-added comments on elements of Sections PS 3250 and PS 3255 would be enhanced with additional details on the overall direction being taken in PSAB's overall project as well as the PSAS reporting model being addressed by the Concepts Underlying Financial Performance Task Force

Ontario's Accounting for JDBPs

- The Province had accounted for the Ontario Teachers' Pension Plan (OTPP), and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP) on a consistent basis for the prior 14 years
- In relation to the 2015-16 Public Accounts for the Province of Ontario, the Auditor General of Ontario (AG) 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 <u>unilateral</u> right to the net pension assets, 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
- An Expert Panel on Pension Assets was appointed in late 2016 to provide advice to the Province in applying PSAS to jointly sponsored and multiemployer pension plans
- The Panel's report was issued on February 13, 2017 which supported Ontario's recognition of its portion of the accounting surplus for its JDBP subject to any valuation allowance

Ontario's Accounting for JDBPs

- OTPP meets the definition of a joint defined benefit plan (JDBP) as the sponsors are jointly responsible for decision making, share in contributions, and collectively address any plan funding surplus/deficit (at least every 3 years)
- Section PS 3250 requires the government to account for its portion of a JDBP following the accounting requirements for a defined benefit plan - no distinction is made as to whether the plan is in a surplus or deficit position
- The Financial Statement Concepts 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
- The Province's position is that the attributes of the JDBP arrangements for OTPP entitle the Province to access its portion of the plan surplus through the right to negotiate its use of the Province's benefit through future reduced contributions

Ontario's Accounting for JDBPs

- The Province expects future benefits from OTPP's plan surplus to be realized through reduced future contributions. Expectations of benefitting from the surplus are based on:
  - The Teachers' Pension Act requires equal contributions from the Province and from plan members of OTPP;
  - The history of surplus utilization for OTPP demonstrates sharing of the financial benefit between sponsors;
  - No sponsor of OTPP can unilaterally utilize the plan's surplus; and
  - If the sponsors of OTPP cannot agree on how to utilize the pension surplus, the matter can be submitted to mediation and then arbitration
- Uncertainty relating to OTPP's pension surplus relates to measurement
- Ontario will recognize at March 31, 2017 its portion of the accounting surplus for its JDBP subject to any valuation allowance in its Public Accounts, reflecting consistent accounting treatment as in the past (except 2015-16)

Ontario's Accounting for Multiemployer Plans

- The Province has two multiemployer pension plans:
  - HOOPP is the Healthcare of Ontario Pension Plan. The HOOPP employer sponsor is the Ontario Hospital Association (OHA)
  - CAATPP is the Colleges of Applied Arts and Technology Pension Plan. The CAATPP employer sponsor is the College Employer Council (CEC)
- The government has no control over decisions of the employer sponsors about benefit or contribution levels, funding of deficits or use of surpluses
- The Plans are funded by contributions from the individual hospitals/colleges that participate in the plans and their employees
- The Plans are multiemployer plans because contributions by one employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer

Ontario's Accounting for Multiemployer Plans

- The Expert Panel on Pension Assets similarly reviewed the Province's application of PSAS to its multiemployer pension plans. The Panel issued a supplemental report concluding:
  - Net pension assets for each plan would meet the definition of an economic resource because:
    - accounting surplus exists, and
    - future economic benefits are available to the Province if contribution levels are reduced
  - Net pension assets should be recognized in the Province's financial statements in the same way as a net liability
  - A valuation allowance is required for accrued benefit assets recognized in the Public Accounts for each Plan
  - The valuation allowance would likely to be for the full amount of the asset unless contribution levels below current service cost are fixed by agreement of Sponsors
  - When a surplus is used for benefit improvements or to reduce employer contributions, the Province would recognize a benefit as the valuation allowance is reduced

Questions