CHAPTER VI: RESPONSIBLE FISCAL MANAGEMENT

Section B:

Teachers' Pension Plan

Q: Why is the 2017-18 Teachers' Pension Plan income (i.e. negative expense) forecasted to increase from $502M in 2016-17 to $531M in 2017-18?

A: The Teachers' Pension Plan has experienced favourable investment returns in the past several years (i.e. 2009 to 2015). The cumulative effect of the investment gains forecasted for 2017-2018 on the net pension asset and those earned from prior years is more than sufficient to offset the Province's share of the cost of pension benefits that were earned by the members of the Teachers' Pension Plan. The income has grown in 2017-18 as more of the investment gains on fund assets earned from 2009 to 2015 are recognized.

Q: Why is the Teachers' Pension Plan income forecasted to be lower for fiscal year 2017-18 compared to what had been initially forecasted for the same year in last year's Plan?

A: The 2017-18 Teachers' Pension Plan income forecast has decreased compared to last year's Plan primarily due to reduction in the discount rate, and lower than expected market returns on pension fund assets in calendar 2016. This decrease is partially offset by lower salary escalation expectation, as well as lower than expected inflation.

Q: Why has the 2016-17 Teachers' Pension Plan income of $502M increased by $50M compared to what was forecasted in last year's plan?

A: The 2016-17 Teachers' Pension Plan income forecast has increased in the current fiscal plan due to a lower than expected rate of growth in active members.

Q: Does the 2017-18 income forecast of $531M indicate a reduction in the Province's annual cash contributions in the plan?

A: No. Employee and employer contributions are determined by a funding valuation. Funding and accounting valuations serve different purposes.

The purpose of a funding valuation is to assess the long-term financial health of a pension plan. The valuation shows whether the plan has a surplus of assets, a shortfall of assets, or the right amount of assets to cover the costs of future pension benefits (including the level of future contributions required to meet the obligations of the plan). Whereas an accounting valuation is performed to calculate and present for accounting purposes the actuarial present value of benefits attributed to employee services rendered to a particular date.

An income (i.e. negative pension expense) does not imply a reduction in pension contributions. Whether an adjustment in the contribution rates is warranted would be determined based on the next funding valuation filed.