



**Analysis of Pension Asset Ceiling
Accounting Considerations for the
Office of the Provincial Controller
Division re: Ontario Public
Service Employees Union Pension
Plan (OPSEU PP)**

August 19, 2016

Table of contents

Introduction	1
Section 1 – Summary of the situation	2
Section 2 – Relevant PS3250 paragraphs	4
Section 3 – Asset ceiling test and EFB calculation basis	6
Section 4 – Sharing principle, contribution reduction and surplus withdrawal	10
Section 5 – Asset ceiling for OPSEU PP	13

Introduction

In preparation of the Province of Ontario Financial statements, the Office of the Provincial Controller Division (OPCD) has retained Deloitte to provide support in analyzing issues around pension accounting. The present document is prepared in relation to the assessment of the application of public sector accounting standards as related to asset ceiling and valuation allowance to the Ontario Public Service Employees Union Pension Plan (OPSEU PP).

The relevant accounting standard referenced in our analysis is public sector accounting standard PS3250 on retirement benefits.

The document will cover the following elements:

- Summary of the situation;
- Overview of the accounting paragraphs that apply to this and the explanation;
- Review of the considerations that go into the asset ceiling test and the Expected Future Benefit (EFB) calculation;
- Review of the employer access to future contribution reduction or surplus withdrawal;
- Summary of findings relating to observations made in discussing the applicability of the asset ceiling test for Ontario's 2015-16 Financial statements.

We are available to discuss the content of this document.



Martin Raymond
Partner, FSA, FCIA



Trevor Gary
Senior Consultant

Section 1 – Summary of the situation

The OPCD in preparation of the Ontario Financial statements for 2015-16 has requested support to assess potential asset ceiling risks in relation to the calculation for the OPSEU PP reported on the Province's consolidated financial statements.

Here are a few facts obtained from discussion / documentation around the OPSEU PP and its accounting:

- The plan is covered by its own legislation, the s' Pension Act
- Most recent funding report was prepared at December 31, 2014 with contributions set for 2015, 2016 and 2017
- The OPSEU PP is a Joint Sponsored Pension Plan (JSPP) as per the Ontario Pension Benefit Act (PBA)
- The plan is accounted for using Joint defined accounting provisions of the standards and the government portion of the plan is determined at 50% of the overall plan, this reflects the 50/50 sharing principle underlying the OPSEU PP (per the Pension Plan text paragraphs 4.6 and 6.3 and page 12 of the funding valuation report – extracts provided in Section 4)
- The total accounting service accrual (service cost) is about \$407M per year calculated in accordance with PSAB (per the Jan. 25, 2016 letter from OPSEU PP)
- The recent accounting surplus measure (Dec 31, 2015) for the portion of the government (50% of the total plan) is around \$912M, using a market-related value of assets (smoothed assets). The surplus using fair value measure of assets is about \$1,422M (per the excel supporting file for accounting calculations received).

We note that the accounting actuarial values are prepared at Dec 31, 2015 and that an adjustment for March 31, 2016 is performed to obtain the year-end values. The balance sheet asset position for the OPSEU PP can be illustrated as follows: (per the excel supporting file for accounting calculations received)

(all figures in \$M)	Total plan	50% Share of the plan
Market related value of assets	17,380	8,690
Value of obligation	15,557	7,778
Surplus (deficit)	1,823	912
Unamortized (gains) losses	(96)	(48)
Adjustment for March 31, 2016	(583)	(292)
Asset (liability) position	1,144	572
Specific Government adjustment		(52)
Final Asset (liability) position on balance sheet		520

This document will cover the following key questions:

- What are the key considerations that go into the asset ceiling determination?
- What is the impact of an asset ceiling for 2015-16, if applicable?
- Is there an asset ceiling impact for OPSEU PP as at March 31, 2016 (that would apply to the \$520M shown above) and if so how is it calculated?

Below is a list of documents and references used in our analysis.

List of documents

Funding policy (FP) of OPSEU PP - agreement between the parties to the plan (provided by OPCD)

Actuarial valuation report of OPSEU PP as at December 31, 2014 – funding purposes - prepared by Towers Watson (provided by OPCD)

Accounting standards PS3250 on post-employment benefits

OPSEU PP Plan text and plan amendments (provided by OPCD)

Discussions with OPCD and OP Trust (incl. overview of some results used in this document) including a summary note prepared by Nadine Petsche, Director of Accounting Policy and Financial Reporting at OPCD (August 4, 2016)

Excel supporting file for accounting calculations (provided by OPCD)

Supporting document from OPSEU PP to OPCD on accounting results, including results prepared by Willis Towers Watson on valuation results for different assumption basis –document dated Jan. 25, 2016 (provided by OPCD)

Section 2 – Relevant PS3250 paragraphs

Below are some extracts from the PS3250 which are relevant for calculating the limit on carrying amount of accrued benefit asset (the asset ceiling test) and the joint defined benefit which are relevant to the analysis and position taken for financial statement preparation.

Limit on the carrying amount of an accrued benefit asset

.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs. [SEPT. 2001]

.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets or by taking a contribution holiday or receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as [Appendix A](#) to this Section is intended to set out the relationship between the various defined terms.

.055 The objective of the standard in paragraph [PS 3250.050](#) is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.056 A government determines its expected future benefit as the sum of:

- a. the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
- b. the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, less required employee contributions and minimum contributions the government is required to make regardless of any surplus, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.

Joint defined benefit plans

.079 Governments may participate jointly in defined benefit plans where the government shares the risks and rewards jointly with plan participants, represented by a sponsor or sponsors. Joint defined benefit plans are governed by a formal agreement between the sponsors, which establishes that the sponsors have shared control over the plan. A governing board is generally appointed by the joint sponsors with equal representation and a mutually agreed-upon chair.

.080 A government would consider the characteristics of the plan to determine whether it meets the definition of a joint defined benefit plan. In a joint defined benefit plan, funding contributions are shared mutually between the government and the plan members. The sponsors have control over decisions related to the administration of the plan and the level of benefits and contributions on an ongoing basis based on the terms of the contractual agreement. The sponsors share, on an equitable basis, the significant risks associated with the benefit plan. Risk would not be considered to be equitably shared in an arrangement where the government and the joint sponsors fund the plan equally but where the government retains the full risk of the accrued benefit obligation. If the government retains the residual risks it is unlikely that the plan meets the definition of a joint defined benefit plan.

.081 When a government participates in a joint defined benefit plan, the government's risk is limited to its portion of the plan. The government should account for its portion of the plan in accordance with the standards for defined benefit plans. [SEPT. 2001]

.082 A government may convert an existing defined benefit plan for which it is the sole sponsor to a joint defined benefit plan where the risks and benefits are shared. When converting to a joint plan, a government would consider whether there are any special accounting issues that arise, including whether the predecessor plan has been settled or partially settled and/or curtailed or partially curtailed. In assessing such issues a government would have regard to its specific circumstances and the terms of the joint defined benefit plan.

Section 3 – Asset ceiling test and EFB calculation basis

PS3250.053 refers to the adjusted benefit asset. This is the amount on which the asset ceiling test applies (PS3250.054) by comparing it to the Expected future benefit (EFB). In many cases, we are seeing unamortized losses, and the adjusted benefit asset effectively equals the accounting surplus. However, for the OPSEU PP, as shown in the Section 1, it is unamortized gains which exist rather than losses.

In this situation, if we take the OPSEU PP case, we would have:

- Adjusted benefit asset = accrued benefit asset less unamort. losses = \$520M - \$0M = \$520M
- So the amount to test against the EFB would be \$520M

Further, PS3250.053 refers to market value of assets rather than market-related value of assets that allows for some smoothing of assets gains and losses (which is used under OPSEU PP). Considering that the market value of assets (total plan) is \$18,399M at Dec 31, 2015 as per the excel file for accounting calculation and applying the 50% share, we do get \$9,200M for the Government share. The difference represents gains on assets not yet reflected in the market-related value of assets and therefore, the unamortized (gains) losses are adjusted accordingly for the test. Making the adjustment for market value measures, we would therefore obtain the following:

(all figures in \$M)	50% Share of the plan-market related value	50% Share of the plan market value
Value of assets	8,690	9,200
Value of obligation	7,778	7,778
Surplus (deficit)	912	1,422
Unamortized (gains) losses	(48)	(558)
Adjustment for March 31, 2016	(292)	(292)
Asset (liability) position	572	572
Specific Government adjustment	(52)	(52)
Final asset (liability) position on balance sheet	520	520

We note that the end result for the test is still \$520M adjusted benefit asset on either market-related value or market value. This occurs because the test is showing unamortized gains in both basis. If unamortized losses were present instead, the results of the test would differ.

The above are basic considerations of the asset ceiling test and mostly straight-forward in application. The most challenging part of the asset ceiling test is identifying the basis to value the EFB under PS3250.056. There are various elements to be considered in this calculation that will determine the amount to use. The definition of EFB incorporates key components that need some analysis. The present section deals with these components.

Definition of EFB

.056 A government determines its expected future benefit as the sum of:

- a. the present value of its expected future accruals for service for the current number of active employees, less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus; and
- b. the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

Key components of the definition are:

- present value calculation
- future service accruals
- current number of active employees
- required employee contributions
- minimum contributions the government is required to make regardless of any surplus
- amount of surplus that can be withdrawn

Current number of employees – Open group notion

Under the definition of the EFB, it is indicated that the present value of future accruals for service is to be based on the current number of active employees. The application of this particular element of the calculation has generally been seen in practice as assuming that the plan would have a perpetuity of future accruals since active employees terminating or retiring would be replaced by new active employees, keeping the number equal to the current population. Unless there is signal or expectation of reduction in population (e.g. if the plan was closed to new entrants or if the employer is going through downsizing), this open group notion has been observed in practice.

Future service accruals - Projection of salary

Under the definition of the EFB, we are performing a present value calculation and therefore this assumes that the underlying components of the calculation are projected into the future (future accruals and contributions). In performing such projection, an increase in salary based on the accounting assumption for salary increase would be applicable.

Present value – discounting effect

Calculation of a present value requires the determination of an interest rate to use. Under PS3250.057, the interest rate used is determined in reference to the expected rate of return on plan assets used to determine the benefit expense.

Future service accruals and required employee contributions - Joint Defined Benefit accounting

Since the OPSEU PP is accounted for based on joint defined benefit provisions of the accounting standards, the asset ceiling test needs to be performed based on the government's portion of the plan (par. PS3250.081). Looking at the EFB definition, it means that the calculation of PS3250.056 a) needs to be adjusted to only reflect the employer share (50% of the total accruals) and to remove any employee contributions that were considered in the calculation (since this relates to the employee portion of the plan).

Observations on PS3250 EFB calculation (in practice)

Deloitte has shared with management that historically there has been in practice a very liberal application of the PS3250 asset ceiling calculation. The EFB has generally been determined as the present value of all future employer service accruals (perpetuity) considering the increase of salary factored into the calculation. This approach is based on View 1 described in the minimum employer contribution required discussion below. One simple way of obtaining that value is based on the following calculation:

- Determine the total accrual for service for one year
- Determine the accrual for service for the employer for one year (i.e. total accrual net of the employee portion)
- Calculate the perpetuity of increasing service cost as follows : accrual of service for employer / (expected return on plan assets – salary increase)
- To illustrate this for OPSEU PP, we did get the following information
 - o Total service accrual = \$407M
 - o Employer service accrual (assuming 50% share) = $\$407\text{M} / 2 = \203.5M
 - o Expected return on plan assets = 6.25% (per the Jan 25, 2016 document and the observed values used in the excel file for accounting calculation)
 - o Salary increase = 3% (excluding merit/promotional scale for simplicity - per the Jan 25, 2016 document and the observed values used in the excel file for accounting calculation)
 - o Perpetuity = $\$203.5\text{M} / (6.25\% - 3\%) = \$6,262\text{M}$

Minimum employer contributions required regardless of any surplus - Views for determination in EFB calculation

There has been in recent years more questions around the meaning of the EFB definition and mostly around what the last part of PS3250.056 a) means. The terminology used of “minimum employer contribution required regardless of any surplus” has been discussed and there have been different views on what this represents.

One view (View 1) focus on whether there is a minimum employer contribution under the plan / legislation that is required even if a surplus would be present. For instance, a plan contribution could be defined as always being at least of 5% of salaries. In such circumstances, there would be a contribution requirement to a minimum level for every year even when surplus is present. If no such minimum exists and there is a possibility to get to 0% contribution, for instance in surplus position, then there would be no minimum contribution required “regardless of any surplus”. This view leads to no reduction in the EFB calculation in cases where no minimum % contribution exists in the plan provisions. In the example above, the perpetuity of \$6,262M is not reduced and therefore EFB remains at \$6,262M.

Another view (View 2) is that minimum required contribution must at least consider the effect of the most recent funding valuation report. This report determines what contribution requirement applies to the current period of the valuation report and until a new report is completed. For instance, if the employer needs to contribute for the next 3 years a certain amount of contribution (service cost and special contribution for deficit), then this represents the minimum required employer contribution regardless of any surplus. As an example, under the most recent funding report of the OPSEU PP (Dec 31, 2014) this amount is about \$270M per year for 2015, 2016 and 2017 which includes service cost and also special contributions. Contributions from 2018 will be determined based on a new valuation report and therefore are unknown as of now (no minimum required contribution on the valuation date for years beyond 2017). In the example above, the perpetuity of \$6,262M is reduced by 2 years of \$270M (excluding interest for simplicity) for an EFB of \$5,722M.

Finally, a more extreme view (View 3) could be to actually prepare detailed future projections of funding valuation results on either a deterministic calculation with identification of the actual year(s) when funding surplus would be present or a stochastic calculation to identify what is the probability of occurrence of funding surplus in future years and the outcome in those cases for contribution reduction/surplus withdrawal. Such an approach would need the inclusion of some many complex assumptions and the preparation of a high volume of calculations. In the example above, the perpetuity of \$6,262M would be reduced more than View 1 or View 2 because of possible future years in the projection that lead to required contribution payments.

We have never seen in practice the use of View 3 under PS3250, while View 1 has been largely used historically. On the other hand, we note that View 2 has been recently observed as a possible emerging interpretation of the paragraph 3250.056.

Amount of surplus that can be withdrawn and contribution reduction availability – OPSEU PP plan characteristics

One element of importance (PS3250.052 and PS3250.059) is to identify whether the employer does have access to the surplus based on legislation and plan characteristics. Is there really some way the government can either withdraw surplus from the plan or reduce future contributions through contribution holiday. The OPSEU PP does have a Funding policy (FP) agreed between employer / employees to determine whether and how surplus can be used under the plan. The FP provides insight on this significant element and is dealt with in the next section.

Section 4 – Sharing principle, contribution reduction and surplus withdrawal

Extracts from the Pension Plan Text

The following paragraphs of the Plan text are supporting elements for the use of the 50 / 50 sharing of contributions - paragraph 4.6 - and also support the use of the Funding Policy agreed between the parties for treatment of the surpluses and deficits – paragraphs 6.3 (3) (c) and 6.3 (5).

- 4.6 Contributions by Employer - Subject to section 4.7, section 4.8 and Article 6, on each payment date, the employer shall pay into the Fund an amount equal to the aggregate amount of all contributions deducted from the members under section 4.2, or that would have been deducted under section 4.2 but for the application of section 4.3, in the month ended next before the month in which the payment date occurs, or made by or on
- 6.3 (3) (c) actuarial gains - thereafter, the remaining gains shall be used equally for the benefit of employers and OPSEU subject to the following: (i) 50% of the gain or such other amount as may be collectively bargained shall be used for the benefit of employers, to be applied against any special payments required to be made by any employers and thereafter to reduce employers' normal costs; and (ii) 50% of the gain or such other amount as may be collectively bargained shall be used for the benefit of Plan members.
- 6.3 (5) actuarial losses - In the event of any actuarial loss or solvency deficiency, contributions by members and employers shall be increased in equal amounts to liquidate the actuarial loss or solvency deficiency in accordance with the *Pension Benefits Act*. The contribution increase will be automatic, and effective as of the first day of January of the year after the actuarial valuation is filed, or such earlier date as may be required by the *Pension Benefits Act*; provided that no contribution increase will be provided for any actuarial loss or solvency deficiency prior to April 1, 1997, and provided further that the members and employers may provide for their payments in respect of such actuarial loss or solvency deficiency from their rate stabilization funds, at their option

Extracts from the most recent funding valuation report (Dec 31, 2014 – page 12 and page 40)

The extracts show that Government is matching employee contributions and equally sharing gains and losses. These are supporting the assessment of the 50 / 50 sharing nature of the plan.

- In accordance with the Sponsorship Agreement between OPSEU and the Government of Ontario, emerging actuarial gains and losses are to be shared equally between the employer and member sponsors. Each sponsor decides how its share of any surplus or deficit generated as a result of actuarial gains (losses) is to be used or settled.
- Effective January 1, 2012, member contribution formula is 9.4% of salary up to the YMPE and 11.0% of salary in excess of the YMPE. In addition, any payments required to liquidate unfunded

liabilities, solvency deficiencies and actuarial losses will be made in accordance with the terms of the Sponsorship Agreement.

- Matching contributions are made by the Employer. In addition, any payments required to liquidate unfunded liabilities, solvency deficiencies and actuarial losses will be made in accordance with the terms of the Sponsorship Agreement.

Funding Policy (FP)

The FP is a document agreed between employer / employees that identifies how the plan is to be funded and specifically how it will deal with deficit and surplus situations. We are particularly interested to identify whether in surplus position the government has access to surplus withdrawal or contribution reduction.

The idea of the plan is that the employer contribution will match the employees' contribution. The use of Joint Defined benefit accounting under PS3250 reflects that general principle underlying the nature of the plan by applying a 50/50 share.

We also note that the accounting valuation is based on best estimate assumptions and that the surplus amount determined by that calculation represents what is the most likely outcome, considering that assumptions are realized in the future. As such, the amount for the employer portion does represent a realistic potential value to the government in contribution reduction and / or surplus withdrawal. We do not know when the actual event would take place and whether it would be through contribution reduction or surplus withdrawal, but we know that this represents a realistic economic benefit. The FP does include elements relating to reducing the Government contributions but there does not appear to be any specific provision related to surplus withdrawal. It does not appear to be identified whether above reducing the Government contribution to \$0, a surplus refund could also apply. The EFB analysis is therefore focused more on the contribution reduction benefit to the Government (which is the main element of EFB).

(Section 2.1 of the Funding policy)

The Province of Ontario and Plan members are jointly responsible for their respective portions of plan deficit. They are reliant on the sufficiency of investment returns to maintain existing contribution levels and to have funds available to meet the benefit commitment to the members. Providing all benefits promised under the terms of the Plan is of primary importance to both Sponsors.

Although wind-up and solvency valuations are prepared with each filed valuation, OPTrust's primary interest is the going-concern valuation. The Plan, along with other JSPPs, has been exempt from solvency funding under the PBA [PBA Reg 909, s. 1.3.1(3)]. The wind-up valuation is also of less significance since the enabling legislation generally prevents the Plan from being wound up [Act, s. 11(3), PBA Reg 909, s. 47.3]. Solvency and wind-up valuations are designed to ensure short-term funding security, which is of secondary importance to the Plan. The going concern valuation focuses on the long-term security of benefits provided under the Plan, and the results of this valuation are the primary consideration of the Funding Policy.

Contribution rates are set out in the Plan text and are currently 9.4% of member salaries up to the Yearly Maximum Pensionable Earnings (YMPE) and 11% thereafter. The YMPE and maximum earnings are prescribed under the *Canada Pension Plan Act* (Canada).

(Section 2.2 of the Funding policy)

Since neither outcome is desirable, the Plan created a contribution rate stabilization reserve (also referred to as an RSF). This reserve is the sum of past unspent surpluses that were evenly allocated to each Sponsor. The RSF is meant to allow OPTrust to draw on reserves prior to the resorting to benefit reductions or contribution rate increases.

The level of funds to be set aside for stabilization purposes, and the choice of whether to use stabilization funds or increase member and employer contributions, is the decision of the Sponsors. However, OPTrust will provide actuarial information to the Sponsors to assist in understanding the impact of various levels of stabilization funds and the associated risk of increased contributions and reduced prospective benefits.

Should the Sponsors decide not to use their respective stabilization funds to meet the additional contribution requirement, or if the Sponsors cannot agree to prospective benefit reductions, OPTrust shall increase contributions sufficiently to pay for the deficit

(Section 9.2 of Funding policy)

In the event of any actuarial loss or solvency deficiency, contributions by the members and their employer shall be increased in equal amounts to liquidate the actuarial loss or solvency deficiency in accordance with the PBA [**PBA, Reg 909, s. 5(1)(e)**]. However, in no event shall the members be required to pay more into the Plan than the employer. This is a requirement under the PBA's provisions for jointly-sponsored pension plans. [**PBA, Reg 909, s. 3.1(1)**]

Gains are shared equally by the employer and OPSEU, subject to the following:

- (i) 50% of the gain or such other amount as may be collectively bargained shall be used for the benefit of employers, to be applied against any special payments required to be made by any employers and thereafter to reduce employers' normal costs [**SA, s. 56 (c) (i)**]; and
- (ii) 50% of the gain or such other amount as may be collectively bargained shall be used for the benefit of Plan members [**SA, s. 56 (c) (ii)**].

Section 5 – Asset ceiling for OPSEU PP

The factors illustrated in the Section 4 coming from the analysis of the FP and surplus application are considerations to determine the Government access to the surplus. We have discussed the plan mechanics with OPCD and here are the key factors of the FP and OPSEU PP characteristics that would be considered in support of the Government Expected future benefit coming from contribution reduction:

- The plan nature is defined to be a 50 / 50 share between employees and employer
- Looking at the FP, this principle applies to bad news and good news, hence for deficit and surplus situations
- The employer can benefit at least from contribution reduction (which is a significant part of the EFB)
- The surplus situations could be dealt with permanent and temporary changes, increasing the likelihood of surplus application
- Accounting valuation uses best estimate assumptions and therefore the resulting surplus is considered a realistic value

Based on the Government view on the OPSEU PP and our discussions with OPCD, we understand that the position is that the asset position should not be reduced by any valuation allowance. This position is based on the nature of the sharing principle of the OPSEU PP which allows for the Government to have access to the surplus and hence the Economic benefit. It is unknown when the benefit will materialize and what form it will take but it is of realistic economic value.

That being said, a very important consideration is that the amount determined represents what the accounting defines as the best estimate. The selection of assumptions to prepare the accounting valuation is therefore significant to ensure that the surplus calculated is realistic. Considering the accounting standards requirement to use best estimate assumptions, it is reasonable to consider that those assumptions are selected by the Government as best estimates and therefore the surplus determined is a realistic value of what benefit the Government may realize in the future through contribution reduction.

Should the characteristics of the plan or the FP parameters change in the future, or if the Government has a different view on the application of the OPSEU PP provisions and the FP for surpluses, this may affect the Government access to surplus and hence the Government view on asset ceiling test.

Based on the facts coming from the FP, the plan nature and the current view that any surplus identified to the Government portion would be used to its own benefit and that the Government is not obligated to use any surplus towards increasing benefits to the members (either through historic practice or internal policy). The above analysis provides evidence to support OPCD's position that no valuation allowance is required to the OPSEU PP asset amount reported under PSAB.

.

.



www.deloitte.ca

Deloitte, one of Canada's leading professional services firms, provides audit, tax, consulting, and financial advisory services. Deloitte LLP, an Ontario limited liability partnership, is the Canadian member firm of Deloitte Touche Tohmatsu Limited.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

© Deloitte LLP and affiliated entities.