Pension Asset Expert Advisory Panel

Minister Briefing

January 17, 2017

Objective

- To provide an update on the Pension Asset Expert Advisory Panel (the 'Panel')'s advice and recommendations to the government on the application of public sector accounting standards (PSAS) to Ontario's net pension assets.

- To discuss report delivery timing and next steps.

General

- In the 2015/16 Public Accounts, the OAG and the government's professional accounting staff disagreed 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).
- Panel supported by a report writer and a project manager.
- Panel provided with briefings to assist members to fully understand the facts and circumstances of the Plans and the basis for the government's accounting conclusions.
- Panel met with the Auditor General and members of her team specifically responsible for the financial statement audit and the pension asset issue to understand the basis for the OAG's accounting conclusions.

Recognition of asset

- The Panel considered: (1) the guidance in the public sector accounting standards on Retirement Benefits and (2) other relevant guidance in areas where the standard is not clear.

- The Panel agrees with the accounting classification of OTPP and OPSEUPP as Joint Defined Benefit Plans (JDBP), as per the Retirement Benefits standard, since 2001 when the standard was issued.

- The Retirement Benefits standard should be applied to the JDPB, on 100% basis, prior to the Province recognizing its portion (50%) in the financial statements.

Recognition of asset

- Net pension asset meets the definition of an economic resource because:
  - it exists, and
  - future benefit is available to sponsors as either contribution reductions and/or benefit improvements under terms of plan.
- Unilateral control not necessary for asset recognition:
  - in fact cannot exist in JDBPs,
  - sponsors jointly control the total net pension asset and must agree on how it will be used. Key notion of control in this case is that each sponsor can deny the other sponsor(s) access to the benefit, and
  - each sponsor can recognize an asset relating to its portion of that jointly controlled asset.

Recognition of asset

Conclusion:

- The Panel agrees that the net pension asset should be recognized in the Province’s financial statements.
- Recognizing the asset will provide a faithful representation of the Province’s financial position.
- Recognizing the asset will properly reflect the intention of the “deal” between the sponsors.

Measurement of asset

- An expected future benefit under the relevant standard can exist without a unilateral legally enforceable right to reduce future contributions:
  - legal requirements for surplus withdrawal and contribution reductions are very different, and
  - applying accounting requirements for withdrawals to contribution reductions does not seem appropriate given differences in legal regimes.
- Expected future benefit is determined as difference between:
  - expected future accruals for service (normal service cost for current number of active employees) plus expenses paid by the plan, and
  - required minimum contributions regardless of surplus in plan both on a present value basis.

Measurement of asset

- Meaning of “level of minimum contributions required regardless of any surplus” not clear:
  - Government analyses of both OTPP and OPSEUPP performed using various interpretations of minimum contributions.
- If there is a contractual or legal requirement to continue to contribute despite the existence of a surplus, these could be considered minimum contributions.

Measurement of asset

Conclusion

- In all analyses with different interpretations of “minimum contributions”, present value of expected future accruals for service for the current number of active employees exceeds the present value of minimum contributions.
- No valuation allowance is required for either accrued benefit asset recognized in the Public Accounts.

Recommendations to PSAB Task Force

- Report will note that in some areas, the necessary guidance was not found in the pension standard.
- The complete public sector standards provided a satisfactory basis for all of the Panel's conclusions.
- The Panel will identify for the Task Force those areas where additional guidance in the pension standard itself would be desirable.

Timelines and Next Steps

- Week of January 16th – Panel to review and finalize report and executive summary.
- Week of January 23rd – Final report and executive summary completed and approved by the Panel.
- Week of January 30th – send final report to Auditor General with offer to meet to discuss the findings.
- Early February – Completion of supplemental report on HOOPP and CAATPP.