RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

From: "Killoch, Alex (MOF)" <alex.killoch@ontario.ca>
To: "Mayman, Gadi (OFA)" <gadi.mayman@ofina.on.ca>, "Thompson, Scott (MOF)" <scott.thompson@ontario.ca>
Cc: "McLean, David (MOF)" <david.mclean@ontario.ca>, "Talwar, Garima (MOF)" <garima.talwar@ontario.ca>, "Myers, Leah (MOF)" <leah.myers@ontario.ca>, "Kandeepan, Ken (OFA)" <ken.kandeepan@ofina.on.ca>
Date: Mon, 26 Sep 2016 15:22:19 -0400

Sounds good.

I am not an expert at how accumulated deficit works, so I just wanted to ensure that it is correct.

There is one more change in the line: " A pension asset arises when the total of the Province's contributions to the plan as well as the ~~interest~~ income earned on the assets in the plan is greater than the retirement benefit expense recognized from since the inception of the plan."

The word "interest" is not required. It is just all income earned on the plan assets.

Alex

-----Original Message-----
From: Gadi Mayman [mailto:Gadi.Mayman@ofina.on.ca]
Sent: Monday, September 26, 2016 3:13 PM
To: Thompson, Scott (MOF); Killoch, Alex (MOF)
Cc: McLean, David (MOF); Talwar, Garima (MOF); Myers, Leah (MOF); Kandeepan, Ken (OFA)
Subject: RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

I'm fine with the wording. I'm not sure that I understand the point that you're making on net debt and accumulated deficit, Alex, as I read them as both going up by $1.5 billion in the rationale from Cindy, which is how we would also interpret it.

Gadi

-----Original Message-----
From: Thompson, Scott (MOF) [mailto:Scott.Thompson@ontario.ca]
Sent: Monday, September 26, 2016 2:03 PM
To: Gadi Mayman < Gadi.Mayman@ofina.on.ca >
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)

Should have included you in this
Thanks
Scott

Sent from my iPad

Begin forwarded message:

From: "Killoch, Alex (MOF)" < Alex.Killoch@ontario.ca<mailto:Alex.Killoch@ontario.ca >>

Date: September 26, 2016 at 1:48:18 PM EDT
To: "Thompson, Scott (MOF)" < Scott.Thompson@ontario.ca<mailto:Scott.Thompson@ontario.ca >>
Cc: "McLean, David (MOF)" < David.McLean@ontario.ca<mailto:David.McLean@ontario.ca >>, "Talwar, Garima (MOF)" < Garima.Talwar@ontario.ca<mailto:Garima.Talwar@ontario.ca >>, "Myers, Leah (MOF)" < Leah.Myers@ontario.ca<mailto:Leah.Myers@ontario.ca >>
Subject: Fw: Wording for note to f/s re: hybrid model (NPP suggested edits)

Hi Scott

A lot of this is accounting terminology but I have a few initial corrections for terminology with my changes in strikeout and in yellow.

In addition, I think the third paragraph reads a bit better if the points are reversed.

I am not sure how net debt is impacted but not accumulated deficit. However, I assume that Gadi is reviewing.

Greg's changes are for OPCD to consider but seem reasonable.

Alex

From: Thompson, Scott (MOF)
Sent: Monday, September 26, 2016 1:13 PM
To: Myers, Leah (MOF); Killoch, Alex (MOF)
Cc: McLean, David (MOF)
Subject: Fwd: Wording for note to f/s re: hybrid model (NPP suggested edits)

Can you look at this and let me know if you have any issues? This would be the rationale if we took on the 1.5 billion for 15-16 deficit, but not put the whole current value of the pension asset onto our accumulated deficit.
Thanks
Scott

Sent from my iPad

Begin forwarded message:
From: "Veinot, Cindy (TBS)" < Cindy.Veinot@ontario.ca<mailto:Cindy.Veinot@ontario.ca >>
Date: September 26, 2016 at 1:00:16 PM EDT
To: "Hughes, Karen (TBS)" < Karen.Hughes@ontario.ca<mailto:Karen.Hughes@ontario.ca >>, "Orencsak, Greg (TBS)" < Greg.Orencsak@ontario.ca<mailto:Greg.Orencsak@ontario.ca >>, "Thompson, Scott (MOF)" < Scott.Thompson@ontario.ca<mailto:Scott.Thompson@ontario.ca >>
Cc: "MacIntyre, Kyle (TBS)" < Kyle.MacIntyre@ontario.ca<mailto:Kyle.MacIntyre@ontario.ca >>, "Laughton, Patrick (TBS)" < Patrick.Laughton@ontario.ca<mailto:Patrick.Laughton@ontario.ca >>
Subject: FW: Wording for note to f/s re: hybrid model (NPP suggested edits)

18. Valuation of Pension Assets

The Province is a joint sponsor of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). Both of these plans are jointly sponsored defined benefit plans and the Province accounts for its portion of each plan in accordance with the Public Sector Accounting Standards for defined benefit pension plans. Recording its portion of each of these plans has resulted in pension assets for OTPP and OPSUEPP for all years since fiscal 2001-2002. These plans are the only pension plans for which a pension asset is recorded.

A pension asset arises when the total of the Province's contributions to the plan as well as the interest income earned on the assets in the plan is greater than the retirement benefit expense recognized from since the inception of the plan.

When a pension asset arises, under Public Sector Accounting Standards, additional analysis is required to determine whether the government is entitled to fully benefit from the pension asset. If a government estimates that it will not be able to fully benefit from the asset, it records a valuation allowance against the asset to reduce the recorded net value of the asset. Generally, a sponsor would be able to benefit from an accounting surplus over time by reducing contributions to the plan. If a government estimates that it will not be able to fully benefit from the asset, it records a valuation allowance against the asset to reduce the recorded net value of the asset.

Historically, the Province reported the full asset value on the consolidated financial statements as reflecting management's best estimate of expected future benefit from the accounting surplus. In the current year, the Province has revisited its evaluation of the recoverability of the pension assets. Based on the actuarial modelling completed, the Province continues to believe that the assets are recoverable; however, it believes that additional modelling is required to either confirm its view or record an additional valuation allowance. The impact of recording an additional valuation allowance in the future could be material to the financial statements.

In light of the additional modelling that the Province is in the process of completing, the Province has not changed the value of the pension assets recorded at the end of the prior year and has recorded a valuation allowance during 2015-16 which is equivalent to the amount of the increase in the pension assets that otherwise would have been recorded. In other words, the value of the pension assets related to OTPP and OPSEUPP are recorded at the same amount in both fiscal 2014-15 and fiscal 2015-16. The 2015-16 reported asset amount is net of a valuation allowance of $1.5 Billion. Recording a valuation allowance of $1.5 Billion in fiscal 2015-16 resulted in an increase in the annual deficit and net debt that would have otherwise been reported by $1.5 Billion.
