1.0 Preamble

This document addresses the accounting for a net pension asset under Public Sector Accounting Standards (PSAS) by the Province of Ontario in relation to the Healthcare of Ontario Pension Plan (HOOPP).

As at March 31, 2016; HOOPP was not in an accrued benefit asset position for accounting purposes however, HOOPP may achieve this status in the near future.

2.0 Issue to be considered

This position paper addresses the following three questions in relation to the accounting for HOOPP:

1. For accounting purposes, what type of pension plan is HOOPP (i.e. how should HOOPP be classified under PSAS)?
2. As a result of the classification, how should the Province of Ontario account for a pension surplus of HOOPP in the Public Accounts?
3. How should a pension asset of HOOPP be measured in the Public Accounts of the Province of Ontario?

3.0 Conclusions

The following conclusions were reached regarding each of the above questions:

1. Classification of HOOPP - The Province has concluded that HOOPP meets the definition of a mulitemployer benefit plan as the plan is a defined benefit plan to which two or more governments or government organizations contribute. For HOOPP, multiple Provincially controlled hospitals contribute. Contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity. The classification of HOOPP as a mulitemployer benefit plan for accounting purposes has been consistent for over 10 years and had been consistently accepted without question by the Office of the Auditor General of Ontario (OAG), including throughout the 2015/16 Public Accounts.
2. Recognition of a pension asset for a mulitemployer benefit plan - The Province has concluded that PSAS (Section PS 3250) supports the recognition by a government sponsor of its portion of a pension plan asset in respect of a mulitemployer benefit plan. The Province is the primary funder of HOOPP through its funding of its controlled hospitals. The Province's portion of a pension surplus for HOOPP meets the definition of an accrued benefit asset under Section PS 3250. For HOOPP, the Province's portion as at March 31, 2016 of the pension liability is 39.1% which is calculated as 85% (the % of members in HOOPP from hospitals consolidated in the public accounts) of 56% (the portion of contributions to HOOPP made by the employers).
3. Measurement of a pension asset - The Province has concluded that the attributes of the multiemployer arrangement for HOOPP do not allow the Province to access its portion of any plan surplus through withdrawal of the surplus or through reduced future contributions. As a result, the Province is not expected to realize any expected future benefit from a plan surplus of HOOPP. A 100% valuation allowance would be recorded against the accrued benefit asset by the Province of Ontario.

4.0 Background information

4.1 Overview of HOOPP

HOOPP was established by the Ontario Hospital Association (OHA) in 1960 to provide post-retirement benefits to Ontario's health care community. HOOPP is a multi-employer contributory defined benefit, where factors, such as earnings and years of service, define members' benefits. The plan was established under an Agreement and Declaration of Trust for the benefit of eligible employees of participating employers.

HOOPP operates in accordance with:

a) The *Teachers' Pension Act* (TPA), R.S.O. 1990, c.T.1 (TPA);
b) The *Pension Benefits Act (Ontario),* R.S.O. 1990, c. P.8 (PBA) and the regulations thereunder (PBR);
c) Plan text for HOOPP ; and
d) HOOPP's policies and procedures.

HOOPP is governed by a board of trustees (the Board) consisting of 16 voting members. OHA appoints eight trustees, and four unions, the Ontario Nurses' Association (ONA), the Canadian Union of Public Employees (CUPE), the Ontario Public Service Employees Union (OPSEU) and the Service Employees International Union (SEIU), each appoint two Trustees. There are also two non-voting Board members. One observer representing pensioners is appointed by the OHA, and one is appointed by the Settlor Unions. Each Trustee has a legal obligation to administer the plan in the best interests of all its members, regardless of their union or other affiliation. Neither the OHA nor the four unions are controlled by Province of Ontario nor included in the government reporting entity.

The HOOPP Board is responsible for administering the Plan. The Board oversees all aspects of the plan and the HOOPP Trust Fund. The Boards' duties include:

- approving changes to the Plan and benefits;
- setting contribution levels;
- establishing investment policy;
- monitoring investment performance; and
- approving annual operating budgets.

The design of the Board is such that the Province of Ontario does not have voting decision making authority on the HOOPP Board and therefore does not appear to have the ability to exercise control over key decisions such as approving changes to the Plan and benefits, setting contribution levels and approving annual operating budgets.

Based on the latest information received from HOOPP as at March 31, 2016, approximately 85% of the membership in HOOPP represents employees from consolidated hospitals (the other 15% are members from consolidated and primarily non-consolidated health agencies). Currently, 4 out of the Province's 146 consolidated hospitals are not members of HOOPP.

4.2 Accounting for HOOPP by the Province

In accordance with RETIREMENT BENEFITS, Section PS 3250 of PSAS, the Province has accounted for HOOPP as a multi-employer plan.

As at March 31, 2016 the Province's consolidated financial statements reported 39.1% of the net liability of HOOPP which is calculated as 85% (the % of members in HOOPP from hospitals consolidated in the public accounts) of 56% (the portion of contributions to HOOPP made by the employers). The 56% is determined in reference to the employer to employee contribution ratio which currently stands at $1.26[1] employer contribution for each $1.00 contributed by the employee. As such, the $1.26 employer contribution is 56% of total contributions of $2.26.

85% of the employer contributions for HOOPP, in the amount of $747 million for the year ended March 31, 2016 are included in the Salaries, Wages and Benefits expenses of the hospitals sector (Schedule 10) and in the expenses of the Ministry of Health and Long-Term Care (Schedule 4) in the Province of Ontario's consolidated financial statements.

The pension liability as well as the consolidation % used in the reporting by the Province of Ontario for HOOPP for the prior 10 years is reflected in Appendix A.

4.3 Applicability of PS 3250 as primary source of GAAP

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES, Section PS 1150 prescribes that, in developing and applying accounting policies, all primary sources of GAAP should be applied (Section PS 1150 paragraph .04). Primary sources of generally accepted accounting principles (GAAP) are Sections PS 1201-PS 3510, Public Sector Guidelines and appendices and illustrative material to those pronouncements. Only when there are no primary sources of GAAP that relate to the transactions or events under consideration, or more specific guidance is needed (Section PS 1150 paragraph .05), does an entity consider other primary sources of GAAP dealing with similar issues and also the concepts described in FINANCIAL STATEMENT CONCEPTS, Section PS 1000 (issued January 2003). Section PS 1000 is not, however, a "primary source of GAAP" under the PSA Handbook.

The primary sources of GAAP specific to the accounting for pension assets is RETIREMENT BENEFITS, Section PS 3250 (issued in September 2001 replacing the prior EMPLOYEE PENSION OBLIGATIONS, also titled Section PS 3250).

There have not been consequential changes to Section PS 3250 since its introduction into the PSA Handbook in 2001.

5.0 Question 1 – Classification of a pension asset

The analysis below addresses whether the Province's share of a pension surplus in HOOPP, calculated in accordance with PSAS under Section PS 3250, would represent a reportable asset to the Province of Ontario in the Public Accounts.

[1] Per the 5-year agreement reached between HOOPP and the Government of Ontario in October 2012

5.1 RETIREMENT BENEFITS PSAS 3250

The focus of the following analysis is on the accounting requirements in RETIREMENT BENEFITS, Section PS 3250 as this standard is a primary source of GAAP which specifically addresses the accounting for pension assets. The following highlights some key concepts and guidance contained in this standard.

5.1.1 Section PS 3250 – Purpose and Scope

The purpose and scope of Section PS 3250 is included in paragraph .001 which states:

> *PURPOSE AND SCOPE*
>
> .001 This Section establishes standards on how to account for and report obligations for employee retirement benefits in government financial statements. Other employee future benefits are specifically dealt with in POST-EMPLOYMENT BENEFITS, COMPENSATED ABSENCES AND TERMINATION BENEFITS, Section PS 3255.

Obligations for retirement benefits are further explained in RETIREMENT BENEFITS, Section PS 3250.003 as follows:

> .003 Obligations for retirement benefits result from a promise by a government to provide these benefits to employees because of retirement in return for their services. Pensions and other retirement benefits, such as extended health care and life insurance benefits, are a form of compensation offered for services rendered and accrue over the years employees render those services. The fundamental accounting task is to determine the amount of the obligation for retirement benefits to attribute to each period of employee service. Determining such amounts involves not only accounting for past transactions and events; it also requires forecasts of future events, such as inflation, investment returns, medical costs and employee turnover and mortality.

RETIREMENT BENEFITS, Section PS 3250 applies to the accounting for HOOPP in the Province of Ontario's financial statements as the pension plan represents an obligation of the Province (funded through its consolidated hospitals) to provide retirement benefits to the members of the plan in return for their services.

5.1.2 PS 3250 – Types of pension plans

RETIREMENT BENEFITS, Section PS 3250 addresses the accounting for different types of pension plans including:

- defined benefit plans (of which joint defined benefit plans are a subset),
- defined contribution plans, and
- multiemployer and multiple-employer benefit plans.

The definitions of a multiemployer and defined benefit plan are included in the glossary to Section PS 3250 as follows:

> A **multiemployer plan** is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the

contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and, thus may be used to provide benefits to employees of all participating entities.

A **defined benefit plan** specifies either the benefits to be received by employees after retirement or the method for determining those benefits. The most commonly used defined benefit plans are:

Final pay plan — Bases benefits on an employee's length of service and compensation over a specified number of years (usually the years of an employee's highest earnings).

Flat benefit plan — Provides a specified benefit for each year of service rendered; the benefit earned in each period is usually fixed and determinable under the terms of the plan and the amount of benefits to be received varies only with the years of service rendered.

HOOPP specifies the method for determining benefits to be received by employees after retirement in the Plan text. It is a defined benefit plan to which two or more governments or government organizations contribute. For HOOPP, multiple Provincially controlled hospitals contribute. Contributions by one participating entity (for example, one specific hospital) are not segregated in a separate account or restricted to provide benefits only to employees of the entity.

The classification of HOOPP as a multiemployer benefit plan for accounting purposes by the Office of the Provincial Controller has been consistent for over 10 years and had been consistently accepted without question by the OAG, including throughout the 2015/16 Public Accounts.

5.2 Conclusion on classification

The Province has concluded that HOOPP meets the definition of a mulitemployer benefit plan as the plan is a defined benefit plan to which two or more governments or government organizations contribute. For HOOPP, multiple Provincially controlled hospitals contribute. Contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity. The classification of HOOPP as a mulitemployer benefit plan for accounting purposes has been consistent for over 10 years and had been consistently accepted without question by the Office of the Auditor General of Ontario (OAG), including throughout the 2015/16 Public Accounts.

6.0 Question 2 – Recognition of a pension asset for a multiemployer benefit plan

6.1 Standards in the PSA Handbook

RETIREMENT BENEFITS, Section PS 3250 paragraphs .105 to .111 provide guidance on the accounting for a mulitemployer benefit plan in the financial statements of a government sponsor as follows:

Multiemployer plans

> .105 A multiemployer plan is a defined benefit plan to which two or more governments or government organizations contribute, usually pursuant to legislation or one or more collective bargaining agreements. The main distinguishing characteristic of a multiemployer plan is that the contributions by one participating entity are not segregated in a separate account or restricted to provide benefits only to employees of the entity and thus may be used to provide benefits to employees of all participating entities.
>
> .106 The federal and most provincial governments sponsor defined benefit plans in which many public sector organizations participate. Many local governments participate in such multiemployer plans. When benefits are provided to employees through a multiemployer plan, the amount for which an individual government is obligated under the plan may not be quantified. Generally, a contribution rate is established for each period to ensure that the plan assets are adequate to cover the plan's future benefit payments.
>
> .107 When a government sponsors a defined benefit multiemployer retirement benefit plan, it has the responsibility to ensure that the defined benefits promised to employees are met. In that circumstance <u>the sponsoring government</u> is at risk for future experience gains or losses and <u>would account for its related obligation for the entire multiemployer plan as a defined benefit plan.</u>
>
> *.108 <u>When a government sponsors a defined benefit multiemployer retirement plan, the government should follow the standards for defined benefit plans in accounting for its obligation for the plan.</u> [SEPT. 2001]*
>
> .109 Although a multiemployer plan may have the characteristics of a defined benefit plan, sufficient information to follow the standards for defined benefit plans is normally not available for each participating employer other than the sponsoring government. For this reason, a multiemployer plan is accounted for by each participating government following the standards for defined contribution plans.
>
> .110 When benefits are provided to employees through a multiemployer retirement benefit plan, each entity participating in the plan, other than the sponsoring government, should follow the standards for defined contribution plans. [SEPT. 2001]
>
> .111 The government should disclose any available information about any surplus or deficit in a multiemployer plan, the basis used to determine the surplus or deficit and the implications, if any, for the government. [SEPT. 2001]

Section PS 3250 paragraph .108 states that "When a government sponsors a defined benefit multiemployer retirement plan, the government should follow the standards for defined benefit plans in accounting for its obligation for the plan." Additionally, paragraph .107 indicates the sponsoring government "... would account for its related obligation for the entire multiemployer plan as a defined benefit plan." Therefore Section PS 3250 paragraphs .050 to .059 (guidance for defined benefit plans) are applicable to government sponsors in a multiemployer plan. These paragraphs (which also apply to the accounting for joint defined benefit plan) require an accrued benefit asset to be reported net of a valuation allowance.

The term “sponsor” is not defined in PSAS. A common definition of the term is “a person or organization that provides funds for a project or activity carried out by another, in particular.” Since the participating employers to HOOPP (primarily hospitals) receive the majority of their funding from the Province of Ontario (for example, approximately 85% of the funding for the broader public sector was from the Province for 2015/2016 per Schedule 10), it can be suggested that the Province of Ontario is the sponsor of HOOPP. The Province is the primary funder of HOOPP through its funding of its controlled hospitals. The HOOPP Board and the Province have negotiated in the past (most recently October 2012 regarding a 5 year agreement) on the funding ratio between the employees and employers of HOOPP.

As mentioned, paragraphs .107 and .108 of Section PS 3250, indicate that only the government’s portion of the plan is included in the government’s financial statements following the requirements of Section PS 3250 for defined benefit plans (recognition) and the measurement of that portion is based on the requirements of Section PS 3250 (measurement). While PSAS is not explicit as to how a government sponsor would calculate its obligation or related obligation, if it was intended that no pension asset/liability could be recognized for a multiemployer plan Section PS 3250 paragraphs .107 and .108 would have made this clear. Similarly, if it was intended the government sponsor report 100% of the pension asset/liability, these paragraphs would not have referred to “its obligation” or “its related obligation”.

This paper discusses the question of measurement separately in Question 3.

6.4 Conclusion on recognition

The Province has concluded that PSAS (Section PS 3250) supports the recognition by a government sponsor of its portion of a pension plan asset in respect of a mulitemployer benefit plan. The Province is the primary funder of HOOPP through its funding of its controlled hospitals. The Province’s portion of a pension surplus for HOOPP meets the definition of an accrued benefit asset under Section PS 3250. For HOOPP, the Province’s portion as at March 31, 2016 of the pension liability is 39.1% which is calculated as 85% (the % of members in HOOPP from hospitals consolidated in the public accounts) of 56% (the portion of contributions to HOOPP made by the employers). The measurement of that accrued benefit asset is determined by reference to the guidance in Section PS 3250 regarding the Limit on the Carrying Amount of an Accrued Benefit Asset, discussed in Question 3 of this position paper.

7.0 Question 3 – Measurement of a pension asset

7.1 Standards in the PSA Handbook

Section PS 3250 addresses how to measure a pension asset. This is a two-step process for HOOPP which is consistent with the calculation for the Ontario Teachers' Pension Plan (OTPP).

Consistent with OTPP, the relevant guidance for HOOPP is Section PS 3250 paragraphs .050-.059 which are included below for completeness and ease of reference:

Limit on the carrying amount of an accrued benefit asset

.50 *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]

.51 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.

.52 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.

.53 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).

.54 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.

.55 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.

.56 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.

.57 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.

.58 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.

.59 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.

Section 3250 paragraph .052 states that a government may benefit from an accrued benefit asset by either i) withdrawing surplus assets from the plan or ii) by taking a contribution holiday or receiving a refund of contributions. This is an explanatory paragraph on how a government may benefit from an accrued benefit asset and why a valuation allowance may be needed.

7.2 Calculating the limit on the carrying amount of an accrued benefit asset

Section PS 3250 paragraphs .053 to .058 lay out a mathematical calculation that determines the value of the adjusted benefit asset and the expected future benefit, and tests whether a government can expect to recover its accrued benefit asset through a withdrawal of surplus or through the reduction of future contributions. The stated objective of this exercise, as set out in Section PS3250 paragraph .055, is to limit the amount of the government's accrued benefit asset to the amount "it can realize in the future." The expected future benefit is further described as "a calculated amount representing the benefit a government expects to realize from a plan surplus". A valuation allowance is recorded against the pension asset to limit the asset value, if necessary, based on this analysis. This is a prescriptive test under Section PS 3250, specifically that the amount of an asset is limited to the "expected future benefit" as defined in Section 3250 paragraph .56.

Therefore in accordance with Section PS 3250 paragraph .56 the Province calculated the 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.

Each of these is discussed separately.

7.3 Considerations re: withdrawal of the surplus (Section PS 3250 paragraph .056 (b))

In relation to the ability of a government to benefit from a surplus through the withdrawal of the surplus, Section 3250 paragraph .059 indicates "The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal."

For HOOPP, according to the Plan text, there is no ability for the Province to withdraw a surplus. Section 14.5 (1) of the Plan text indicates that a surplus in the plan is to be used for improving benefits or reducing the total annual cost of the plan. A paragraph from Section 14.5 (1) is as follows:

> If the actuary determines on an on-going basis that there is a surplus in the trust fund at a triennial valuation date equal to or less than ten percent of actuarial liabilities, the administrator, in consultation with the actuary, shall determine the portion, if any, of the surplus to be used for the purpose of improving benefits or reducing the total annual cost.

There are no provisions in the HOOPP Plan text to permit the withdrawal of a surplus.

7.4 Considerations re: reduced future contributions (Section PS 3250 paragraph .056 (a))

Section PS 3250 paragraph .056(a) sets out that the government's calculation of expected future benefit would be 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.

In the event of a surplus, the HOOPP Board is responsible for making decisions in the Plan members' best interest regarding improving benefits and/or the reducing contributions. One might assume that the

Board is inherently motivated to oppose the reduction of contributions because the design of HOOPP effectively allows for employees to earn a 26% premium for employee contributions under the current arrangement. Additionally, there is no incentive for union appointees on the Board, who represent the interests of employees and OHA appointees, who do not have direct accountability to represent the interests of the Province of Ontario to reduce contributions as this would go against the best interests of Plan members.

The employers, primarily Ontario Hospitals, also do not have decision making authority on the HOOPP Board and as such, the likelihood of a reduction of contributions to HOOPP as a result of surpluses is very low.

7.8 Conclusion on measurement

The Province has concluded that the attributes of the multiemployer arrangement for HOOPP do not allow the Province to access its portion of any plan surplus through withdrawal of the surplus or through reduced future contributions. As a result, the Province is not expected to realize any expected future benefit from a plan surplus of HOOPP. A 100% valuation allowance would be recorded against the accrued benefit asset by the Province of Ontario.

This conclusion is consistent with the Province of British Columbia who disclosed the following in its 2015/16 public accounts:

> Where plans are in a net asset position and Joint Trusteeship Agreements restrict access to the assets, the province records the value of plan net assets as nil. The province records a liability for its share where plans are in a net obligation position.

Appendix A – Pension liability for HOOPP including the consolidation % used in the reporting by the Province of Ontario for the prior 10 years

Financial year-end date	Province's Pension Liability for HOOPP (in $ millions)	% of HOOPP members from consolidated hospitals	% of employer contributions
March 31, 2007	153	88.5%	56%
March 31, 2008	198	88.5%	56%
March 31, 2009	317	88.5%	56%
March 31, 2010	501	88.5%	56%
March 31, 2011	634	88.5%	56%
March 31, 2012	802	86.6%	56%
March 31, 2013	991	85.9%	56%
March 31, 2014	1,112	85.0%	56%
March 31, 2015	1,056	84.4%	56%
March 31, 2016	872	85.2%	56%