COLLEGES OF APPLIED ARTS AND TECHNOLOGY PENSION PLAN (CAATPP)

ISSUE

The Colleges of Applied Arts and Technology Pension Plan (CAATPP) expected 2016-17 expense of $202M represents an increase of $15M from the projected 2016-17 expense of $187M included in the 2016 Budget.

The expected 2016-17 CAATPP expense of $202M is an increase of $12M from the $190M actual expense reported for 2015-16.

Reference: Chapter VI, Section B, Table 6.15 Total Expense

KEY FACTS

2016-17 Interim

Budget to Budget

- The $15M increase in the interim 2016-17 CAATPP expense ($202M) compared to the 2016-17 expense projected in the 2016 Budget ($187M) is primarily due to a valuation allowance taken for accounting purposes to write-off plan surpluses, reflecting the recommendations of the Expert Advisory Panel on Pensions.

Year-over-Year

- The $12M increase in the interim 2016-17 CAATPP expense ($202M) compared to the reported 2015-16 actual expense ($190M) is mainly due the $14M write-off of plan surpluses forecasted in 2016-17, offset by a $2M decrease in plan expenses. The 2015-16 results do not include a valuation allowance. Excluding the increase in expense due to the valuation allowance of $14M, 2016-17 forecast CAATPP expenses would have been $188M, a $2M decrease from 2015-16.

2017-18 Plan

Budget to Budget

- A $60M increase in the forecasted 2017-18 CAATPP expense ($232M) compared to the expense projected in the 2016 Budget ($172M) is mainly due to an increase in current service cost as a result of an increase in the salary growth assumption and increase in interest expense on plan obligations as a result of a reduction in the discount rate. Forecasted expense is further increased over 2016 Budget due to a $25M valuation allowance taken for accounting purposes to write-off plan surpluses forecasted in 2017-18 reflecting the recommendations of the Expert Advisory Panel on Pensions.

Year-over-Year

- The $30M increase in the forecasted 2017-18 CAATPP expense ($232M) compared to the expected expense for 2016-17 ($202M) is mainly due to an increase in the salary growth rate assumption in 2017-18 and forecasted increases in active membership. 2017-18 expense is further increased due to an $11M increase in the valuation allowance taken for accounting purposes to write-off plan surpluses forecasted in 2017-18.

BACKGROUND

CAATPP Expense — **Table 1 ($ Millions)**

	Actual 2014-15	Actual 2015-16	Interim 2016-17	Plan 2017-18
2017 Budget	209	190	202	232
2016 Budget			187	172
Increase (Decrease) in Fiscal Plan			15	60

Pension expense reported in both the Province's consolidated financial statements and the Budget are determined in accordance with recommendations of the Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada (CPA Canada).

PSAS based calculations of pension expense reflect the government's share of the annual cost of pension benefits earned by employees during the year with adjustments for the government's share of gains or losses experienced by the plan, interest on the net pension liability or surplus, one-time cost of plan amendments made during the year and other applicable adjustments.

The employer's cash contribution to a pension plan in a particular period does not represent pension expense for financial reporting purposes which are calculated on a PSAS basis. Rather, contributions are calculated based on actuarial valuations conducted for funding purposes which are intended to ensure that a pension plan has sufficient money to pay for its obligations when they become due.

Under the Province's accounting policies, any actuarial gains or losses in a given calendar year are reflected in pension expense over the expected average remaining service life of the employees (12.9 years for CAATPP), starting in the subsequent fiscal year.

During 2016-17, the Province engaged an Expert Advisory Panel on Pensions to review the Province's accounting treatment for CAATPP. The Panel concluded that the existing governance structure related to the CAATPP, a multi-employer plan, does not allow the government to have a reasonable expectation of benefitting from net asset surpluses through future contribution reductions. The government accepted the Panel's recommendations and starting with the 2016-17 Public Accounts will be reflecting a reduction in pension related balance reported on the Province's books. This change will impact the Province's annual surplus/deficit results.

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