# OPS EMPLOYEE AND PENSIONER BENEFITS

## ISSUE

The OPS Employee and Pensioner Benefits expense of $1,163M for 2016-17 is expected to be close in line with what was projected in 2016 budget. The OPS Employee and Pensioner Benefits expense forecast of $1,208M for 2017-18 is projected to increase by $148M compared to the $1,060M that was forecasted in the 2016 Budget.

The 2017-18 OPS Employee and Pensioner Benefits expense of $1,208M is expected to increase by $45M compared to the 2016-17 expense forecast of $1,163M.

Compared to the 2015-16 actual expense of $987M, the OPS Employee and Pensioner Benefits expense is expected to increase by $176M to $1,163M in 2016-17.

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

## KEY FACTS

- The OPS Employee and Pensioner Benefits expense is primarily comprised of the annual expenses associated with the Public Service Pension Plan, OPSEU Pension Plan, non-pension retirement benefits, post-employment benefits and other benefits. The overall change in the total expense is attributed to the following components:
  - Public Service Pension Plan (PSPP)
    - 2016-17 interim expense forecast is slightly higher than the 2016 Budget mainly as a result of higher than expected salary increases for some members of the PSPP resulting in higher than expected costs through the supplementary pension plan.
    - The 2017-18 expense forecast is higher than forecasted in the 2016 Budget mainly as a result of a reduction in the discount rate and higher interest expense on the resulting plan obligations. Other contributing factors to higher forecasted expenses for 2017-18 were lower than expected employee contributions due to lower increase in active members in 2016 than forecasted. Increases in forecasted expenses were partially off-set by a reduction in service costs due to the lower than expected increases in active members to the plan and a reduction in the plan's long-term salary growth assumption.
  - OPSEU Pension Plan
    - The 2016-17 interim pension expense is in line with 2016 Budget forecast.
    - Both a reduction in the discount rate and lower than expected actual 2016 investment returns on plan asset contributed to 2017-18 expense forecast being higher than forecasted in 2016 budget. In addition this also contributed to the increase in forecasted expense by $15M from 2016-17 to 2017-18.
    - The forecasted 2016-17 interim expense is expected to decrease by $46M from 2015-16 actuals, as more of the investment gains on pension assets from previous years are being recognized into reducing expense.
  - Non-Pension Retirement Benefits, Post-Employment Benefits and Other Benefits
    - Updated benefit claim assumptions for employees currently on Long-Term Income Protection (LTIP), and revised calculations of pension liability of the small pension plans held in the consolidated revenue fund both contributed to higher expense for Post-Employment and Other Benefits for the interim and plan years compared to 2016 Budget.
    - The Other Retirement benefits expense for the interim and plan years

have been updated for the most recent Ontario Provincial Police Association (OPPA) funding agreement. This result in 2017 Budget forecast to be lower than 2016 Budget forecast.

- 2015-16 Actuals include one time savings from plan change for OPSEU employees to cap termination pay accrued up to December 31, 2016 and changes to OPSEU LTIP benefits.

## FISCAL IMPLICATIONS

**Employee and Pensioner Benefits**

**($ Millions)**

| | **Actual 2014-15** | **Actual 2015-16** | **Interim 2016-17** | **Plan 2017-18** |
|---|---|---|---|---|
| 2017 Public Service Pension Plan | 568 | 519 | 545 | 581 |
| 2017 OPSEU Pension Plan | 219 | 177 | 131 | 146 |
| 2017 Other Non-Pension Retirement Benefits | 319 | 393 | 283 | 312 |
| 2017 Post-Employment and Other Benefits | 80 | (102) | 204 | 169 |
| **2017 Budget** | **1,186** | **987** | **1,163** | **1,208** |
| 2016 Public Service Pension Plan | | | 517 | 440 |
| 2016 OPSEU Pension Plan | | | 135 | 98 |
| 2016 Other Non-Pension Retirement Benefits | | | 350 | 358 |
| 2016 Post-Employment and Other Benefits | | | 151 | 164 |
| **2016 Budget** | | | **1,153** | **1,060** |
| Increase in Public Service Pension Plan | | | 28 | 141 |
| (Decrease)/Increase in OPSEU Pension Plan | | | (4) | 48 |
| Decrease Other Non-Pension Retirement Benefits | | | (67) | (46) |
| Increase in Post-Employment Benefits | | | 53 | 5 |
| **Increase in Fiscal Plan** | | | **10** | **148** |

## BACKGROUND

The OPS Employee and Pensioner Benefits expense includes Public Service Pension Plan (PSPP) expense, OPSEU Pension Plan expense, and other non-pension retirement benefits expense (dental, basic life insurance, supplementary health and hospital benefits for retired employees), post-employment benefits (LTIP, WSIB, Legislated Severances) and other benefits (i.e. small pension plans held in consolidated revenue fund).

Expenses reported in both the Province's Consolidated Financial Statements and the Budget are determined consistently in accordance with recommendations of the Public Sector Accounting Standards (PSAS) of the Chartered Professional Accountants of Canada (CPA).

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

The employer's cash contribution to a retirement benefit plan (i.e. pension and non-pension retirement plan) in a particular period does not represent retirement benefits expense on a PSAB basis. This contribution is calculated through an actuarial valuation for funding purposes and ensures that a retirement benefits 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 (10.8 years for PSPP and 12.5 years for OPSEU) starting in the subsequent fiscal year.

OPSEU Pension Plan is currently reporting in a net pension asset position (i.e. since 2001-02). A net pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. The government records the pension net asset to the extent the government expects to benefit from the asset through future reductions in contributions to the plan.

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