EMPLOYEE AND PENSIONER BENEFITS

ISSUE

The Employee and Pensioner Benefits expense of $1,155M for 2017-18 is expected to decrease by $53M to what was projected in 2017 budget. The Employee and Pensioner Benefits expense forecast of $1,271M for 2018-19 is projected to increase by $110M compared to the $1,161M that was forecasted in the 2017 Budget.

The 2018-19 Employee and Pensioner Benefits expense of $1,271M is expected to increase by $116M compared to the 2017-18 expense interim forecast of $1,155M.

Compared to the 2016-17 actual expense of $1,002M, the Employee and Pensioner Benefits expense is expected to increase by $153M to $1,155M in 2017-18.

Reference: Chapter III, Section C, Table X.XX Total Expense

KEY FACTS

- The 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:

<u>Public Service Pension Plan (PSPP)</u>

- 2017-18 interim expense forecast is lower than the 2017 Budget mainly due to increase in active members are less than originally forecasted in the 2017 Budget.
- The 2018-19 expense forecast is higher than forecasted in the 2017 Budget mainly due to improved mortality rates in the 2017-18 valuation. The increase in expense is partially off-by lower salary escalation expectations than forecasted in the 2017-18 PRRT.

<u>OPSEU Pension Plan</u>

- The 2017-18 interim pension expense is in line with the 2017 Budget forecast.
- The increase in 2018-19 projected expense compared to 2017 budget is mainly due to a reduction in the discount rate. The increase in expense is partially offset by higher than expected actual investment returns on plan assets, lower salary escalation expectation, and lower than expected inflation. In addition, these factors also increase the projected pension expense from $146M in 2017-18 to $186M in 2018-19.
- The forecasted 2017-18 interim expense is expected to increase by $12M from 2016-17 actuals is due to reduction in discount rate in 2016 and lower than expected return on plan assets in 2016 impacts expense starting 2017-18.

<u>Non-Pension Retirement Benefits, Post-Employment Benefits and Other Benefits</u>

- The decrease in total Non-Pension Retirement Benefits, Post Employment and Other Benefits compared to 2017 Budget is mainly due to increase in discount rate compared to 2017 Budget and updated benefit claim assumptions for employees currently on Long-Term Income Protection (LTIP).
- 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 the OPSEU LTIP benefits.

BACKGROUND

Employee and Pensioner Benefits				($ Millions)
	Actual 2015-16	Actual 2016-17	Interim 2017-18	Plan 2018-19
2018 Public Service Pension Plan*	519	521	570	611
2018 OPSEU Pension Plan	177	134	146	186
2018 Other Non-Pension Retirement Benefits	393	283	310	306
2018 Post-Employment and Other Benefits	(102)	64	129	168
2018 Budget	**987**	**1,002**	**1,155**	**1,271**
2017 Public Service Pension Plan*			581	530
2017 OPSEU Pension Plan			146	138
2017 Other Non-Pension Retirement Benefits			312	323
2017 Post-Employment and Other Benefits			169	170
2017 Budget			**1,208**	**1,161**
(Decrease)/Increase in Public Service Pension Plan			(11)	81
Increase in OPSEU Pension Plan			-	48
Decrease Other Non-Pension Retirement Benefits			(2)	(17)
Decrease in Post-Employment Benefits and Other Benefits			(40)	(2)
(Decrease)/Increase in Fiscal Plan			**(53)**	**110**

*Includes PSSBA and consolidation adjustment

The 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 PSAS 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 (11.0 years for PSPP and 12.5 years for OPSEU) starting in the subsequent fiscal year.

OPSEU Pension Plan is currently reporting 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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