TEACHERS' PENSION PLAN (TPP)

ISSUE

The Teachers' Pension Plan (TPP) income (i.e. negative expense) is expected to increase by $29M from forecasted $502M in 2016-17 to $531M in 2017-18.

The TPP income forecast of $531M in 2017-18 is projected to decrease by $289M compared to the $820M income forecasted in 2016 Budget.

TPP income for 2016-17 of $502M is expected to increase by $50M compared to $452M forecasted of in the 2016 Budget.

TPP is expected to report net income of $502M (i.e. negative expense) in 2016-17, compared to the actual 2015-16 TPP expense of $110M, a change of $612M year over year.

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

KEY FACTS

- The Teachers' Pension Plan (TPP) has experienced favourable investment returns in the past several years (i.e. 2009 to 2015).
- The expected income on the excess of the assets in the plan over the present value of the obligations to the employees, and the cumulative effect of the investment gains earned from prior years (i.e. 2009-2015) is more than sufficient to offset the Province's share of the cost of pension benefits that were earned by Plan members in 2017-18. This has resulted in income (i.e. negative pension expense) forecasted for 2017-18.
- The TPP income forecast for 2017-18 has decreased compared to what was initially forecast in the 2016 Budget. This is primarily due reduction in the discount rate, and lower than expected market returns on pension fund assets in calendar 2016. The decrease is partially offset by lower salary escalation expectation, as well as lower than expected inflation.
- The TPP income forecast for 2016-17 has increased by $50M compared to the income forecast in the 2016 Budget due to a lower than expected rate of growth in active members.
- The projected change of $612M, from 2015-16 actual expense of $110M compared to 2016-17 projected income of $502M is due to increased recognition of investment gains on fund assets earned from 2009 to 2015.

BACKGROUND

Teachers' Pension Plan Expense/(Income)

($ Millions)

	Actual 2014-15	**Actual 2015-16**	**Interim 2016-17**	**Plan 2017-18**
2016 Budget	564	110	(502)	(531)
2015 Budget			(452)	(820)
Increase/(Decrease) in Fiscal Plan			**(50)**	**289**

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

PSAS based calculations of pension expense reflects 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. 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 (15.2 years) starting in the subsequent fiscal year.

Teachers' Pension Plan (TPP) 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.

<u>Year-over-Year Increases Over Outlook Period</u>

TPP expense decreased by $454M from $564M in 2014-15 to $110M in 2015-16 mainly due to increased recognition of investment gains earned on the fund assets from 2009 to 2014.

The projected change of $612M, from 2015-16 actual expense of $110M compared to 2016-17 projected income of $502M is mainly due to greater recognition of investment gains earned from 2009 to 2015, a revised lower salary escalation expectation, as well as lower than expected inflation.   This decrease is partially offset by reduction in discount rate in 2015-16.

The 2017-18 TPP income is projected to further increase compared to 2016-17 projected income. This is mainly due to greater recognition of investment gains earned from 2009 to 2015, lower salary escalation expectation and lower than expected inflation. The increases is partially offset by impacts of a further reduction in discount rate for 2016-17 and lower than expected market returns on plan assets in 2016.

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