TEACHERS' PENSION PLAN (TPP)

ISSUE

The Teachers' Pension Plan (TPP) income (i.e. negative expense) is expected to increase by $401M from forecasted $460M in 2017-18 to $861M in 2018-19.

The TPP income forecast of $861M in 2018-19 is projected to increase by $83M compared to the $778M income forecasted in 2017 Budget.

TPP income for 2017-18 of $460M is expected to decrease by $71M compared to $531M forecasted in the 2017 Budget.

TPP is expected to report net income of $460M (i.e. negative expense) in 2017-18, compared to the actual 2016-17 TPP of $377M, a change of $83M year over year.

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

KEY FACTS

- The Teachers' Pension Plan (TPP) has experienced favourable investment returns in the past several years (i.e. 2009 to 2015) including the most recent 2017 year.
- The cumulative effect of the investment gains on the net pension asset in 2017 and from prior years is more than sufficient to offset the Province's share of the cost of pension benefits that were earned by the members of the Teachers' Pension Plan in 2018-19. This has resulted in income (i.e. negative pension expense) forecasted for 2018-19.
- The TPP income forecast for 2018-19 has increased compared to what was initially forecast in the 2017 Budget. This is primarily due to higher than expected market returns on pension fund assets in calendar 2017, lower salary escalation expectation, as well as lower than expected inflation.
- The TPP income forecast for 2017-18 has decreased by $71M compared to the income forecast in the 2017 Budget mainly due to an adjustment made to exclude Province cash contributions in arrears from pension assets.
- The projected change of $83M, from 2016-17 actual income of $377M compared to 2017-18 projected income of $460M is due to increased recognition of investment gains on fund assets earned from prior years.

BACKGROUND

Teachers' Pension Plan Expense/(Income)

				($ Millions)
	Actual 2015-16	**Actual 2016-17**	**Interim 2017-18**	**Plan 2018-19**
2018 Budget	110	(377)	(460)	(861)
2017 Budget			(531)	(778)
Increase/(Decrease) in Fiscal Plan			**71**	**(83)**

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.

In the most recent January 1, 2017 funding valuation, commencing January 1, 2018, the required special contributions of 1.1% of earnings that were otherwise payable until December 31, 2026 have been eliminated.

Year-over-Year Increases Over Outlook Period

TPP expense decreased by $487M from $110M in 2015-16 to TPP income of $377M in 2016-17 mainly due to increased recognition of investment gains earned on the fund assets from 2009 to 2015.

The projected change of $83M, from 2016-17 actual income of $377M compared to 2017-18 projected income of $460M 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.

The 2018-19 TPP income is projected to further increase compared to 2017-18 projected income. This is mainly due to greater recognition of investment gains earned from 2009 to 2015 & 2017, lower salary escalation expectation and lower than expected inflation.

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