COLLEGES OF APPLIED ARTS AND TECHNOLOGY (CAATPP) PENSION PLAN EXPENSE

ISSUE

The Colleges of Applied Arts and Technology Pension Plan (CAATPP) expected 2017-18 expense of $216M represents a decrease of $16M from the projected 2017-18 expense of $232M included in the 2017 Budget.

The expected 2017-18 CAATPP expense of $216M is an increase of $8M from the $208M actual expense reported for 2016-17.

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

KEY FACTS

2017-18 Interim

Budget to Budget

The $16M decrease in the interim 2017-18 CAATPP expense ($216M) compared to the 2017-18 expense projected in the 2017 Budget ($232M) is primarily due to a decrease in the valuation allowance (or net asset position of the plan), which was mainly due to higher unamortized experience gains than forecasted in the 2017 Budget due to a higher than expected returns on pension fund assets in 2017-18.

Year-over-Year

The $8M increase in the interim 2017-18 CAATPP expense ($216M) compared to the reported 2016-17 actual expense ($208) is due to regular employer contribution increases based on assumptions for normal increase in active members of the plan and salary escalation.

2018-19 Plan

Budget to Budget

The $17M decrease in the forecasted 2018-19 CAATPP expense ($229M) compared to the 2018-19 expense projected in the 2017 Budget ($246M) is mainly due to:

- Higher experience gains on the market related value of pension assets in 2017 than forecasted in the 2017 Budget. 2017 experience gains are amortized beginning in 2018-19. This reduces the amortization of prior years' net experience losses in the plan.

Commented [A1]: Need to speak to 2018-19 – the primary purpose of this BN is for the 2018 Budget.

Commented [A2]: This explanation doesn't make sense to me – if we have more than expected unamortized actuarial gains, the net asset will increase meaning that the valuation allowance should be higher.

Commented [A3]: Employer contributions don't impact pension expense – let's discuss.

- Decrease in the net interest expense forecasted over the 2017 Budget as a result of higher than 2017 Budget forecasted interest returns on pension assets in the plan and outlook years.

Partially offset by:

- Increase in valuation allowance (or net asset position of the plan) mainly due to higher than expected gains on market value of pension assets in 2017-18 (which are smoothed into the plan beginning in 2017-18 and next 4 years).

Year-over-Year

The $13M increase in the forecasted 2018-19 CAATPP expense ($229M) compared to the expected expense for 2017-18 ($216M) is mainly due to forecasted regular employer contribution increases.

Commented [A4]: Let's discuss – employer contributions don't impact pension expense – is this tied to the valuation allowance requirement?

FISCAL IMPACT

Commented [A5]: Row titles need to be updated

CAATPP Expense				**Table 1 ($ Millions)**
	Actual 2015-16	**Actual 2016-17**	**Interim 2017-18**	**Plan 2018-19**
2017 Budget	190	208	216	229
2016 Budget			232	246
Increase (Decrease) in Fiscal Plan			(16)	(17)

BACKGROUND

Commented [A6]: Please add a reference to the valuation allowance requirement and the Panel's conclusions.

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

PSAB 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 which are calculated on a PSAB 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 (13.0 years for CAATPP), starting in the subsequent fiscal year.

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