Accounting approach: Ontario Pension Plans
Year-end adjustments
Narrative/commentary for comparative figures (DRAFT)

1. Adjustment for contribution receivable (OTPP)

- "Market value of assets" provided in the financial information letter from OTPP includes contribution receivable to be made by the Province (i.e. accrual basis)
- The market value of assets (and market-related value of assets) should not include receivable under PSAB

Current state and related adjustment	Proposed accounting treatment
- 50% of assets and obligations are allocated to the Province (which includes 50% of the contribution receivable) - Balance sheet position (Province's portion) is reduced by 50% of contribution receivable (embedded with other prior year adjustments)	- As the contribution receivable relates entirely to a lag in the Province's contribution, the Province's portion of the balance sheet position is reduced by 100% of the contribution receivable. - In addition, the expected return on asset related to the Province is reduced (i.e. expense is increased) to exclude return on receivable assets.

2. Reversal of unamortized contribution differences (OTPP, OPSEUPP, HOOPP, CAATTPP)

- For all Plans other than PSPP, a comparison is made based on the assumed required employer contributions against the employee contributions (as per funding policy and Plan requirement). Any differences (i.e. over/under contribution by the Province) are amortized over EARSL. In other words, the differences are being treated as experience gain/loss.
- The current comparisons implicitly included differences due to timing between employers and employees (e.g. 2 months lag for OPESUPP), contributions by other participating employer (non-consolidated and/or consolidated agencies), as well as service buybacks contributions by employees which may not require contribution matching by the employer. These adjustments relating to contribution differences, which have been growing over time, do not appear to be warranted.

Current state and related adjustment	Proposed accounting treatment
- Comparison (vary by Plan) is made to determined contribution differences each year - Contribution differences are amortized over EARSL, similar to experience gain/loss - Balance sheet reconciliation reflect contributions made by Province only, and adjusted by the unamortized contribution differences	- Eliminate comparison and year-end adjustment - Reflect the appropriate proportion of total contributions that are accounted for in the Province's portion of the assets

- OTPP
  - The unamortized contribution differences (50%) at April 1, 2015 ($254M) is to be amortized over EARSL (approximately $30M per year).
  - Each year, the amount to be amortized is determined as the difference the (i) Province contributions and (ii) the sum of total employee contributions and other employer contributions.
  - The comparison does not recognize that the employee contributions include contributions in respect of other participating employer appropriately and the potential timing differences (12 months lag). Excluding timing differences, the appropriate comparison would be (i) province contributions and (ii) employee contributions minus other employer contributions. As such, the current comparison result in "under contributions" by the Province and growing overtime.
  - We recommend the year-end adjustment be eliminated and replaced by applying a reduced portion of the Plan to the Province to reflect other participating employers.

- OPSEUPP
  - The unamortized contribution differences (50%) at April 1, 2015 ($52M) is to be amortized over EARSL (approximately $5M to $10M per year).
  - Each year, the amount to be amortized is determined as the difference between the employee contributions and the Province contributions.
  - The comparison does not recognize that the employee contributions include contributions in respect of other participating employers and potential timing differences. As such, the current comparison inaccurately presents "under contributions" by the Province, which is growing overtime.
  - We recommend the year-end adjustment be eliminated, and replaced by applying a reduced portion of the Plan to the Province to reflect other participating employers (consolidated/non-consolidated).

- HOOPP
  - The unamortized contribution differences (56% x 85.2%) at April 1, 2015 ($83M) is to be amortized over EARSL (approximately $10M per year). Each year, the amount to be amortized is determined as the difference between the employee contributions and the employer contributions.
  - The current employer contribution rate is 126% of the employee contributions (in respect of required contributions for member related to current service, or contributions with no earnings for services under Section 5.2 (1), (2), and (3) and Section 5.5 of the Plan text).
  - The comparison does not recognize that the employers may not be required to make corresponding contributions towards all employee contributions (e.g. for past service purchase as per Section 12 of the Plan text; referred to as "other employee contributions" under the letter from HOOPP).
  - Consequently, the unamortized contribution differences appears to correspond to additional contributions made by employees to which an employer match may not be required. Upon confirmation, we recommend the year-end adjustment be eliminated and irregular employee contributions which do not require an employer match be excluded from P&L).

- CATTPP
  - The unamortized contribution differences at April 1, 2015 (158k) is in respect to year 2005 and 2006; contributions since have been split equally (i.e. no difference to be amortized). The amount is to be fully amortized by end of F2016 ($119k income for F2015 and $39k income for F2016).
  - Given the funding policy and arrangement for the Plan, the differences in respect of year 2005 and 2006 are likely result of special circumstances (i.e. not an experience g/l due to over/under contributions per requirement). We would recommend the outstanding unamortized amount to be reversed, consistent with the treatment of the differences arise during F2016 as outlined below. However, we note that the amount would be amortized by end of F2016 regardless and will not have further year-end adjustments onwards.
  - During F2016, the contributions between employers and employees are not exactly 50/50 due to a special arrangement related to the ROM transfers. The differences of $1M does not constitute an over contribution by the employer. As such, we do not recommend the differences to be amortized as an experience gain/loss. Rather, 50% of the excess (500k) should be reflected as contributions made during the year for Ontario's portion (as it has been accounted for in the assets). This will also translate to a lower change in valuation allowance for F2016, resulting in a lower expense.

3. Reversal of unamortized gains/losses due to historical cumulative transfers (OTPP, PSPP, OPSEUPP)

- During some historical years, transfer from other plans were reflected as an expense through P&L; however, this was later determined to be inconsistent with the requirement under PSAB. Per historical agreement with the AG, the total cumulative transfer reported is to be corrected by amortizing over EARSL and reporting an income through P&L until the full amount is reversed.

Current state and related adjustment	Proposed accounting treatment
- Historical cumulative transfers reported as expense are amortized as income; balance sheet is adjusted by the outstanding unamortized amount	- Immediately recognized the outstanding amount and eliminate year-end adjustment for expense and balance sheet going forward
- OTPP: At March 31, 2015, $51M (100%) is outstanding (income of $10M to be recognized per year for the next 5 years)	- OTPP: the Province's expense portion (50%) will increase by $5M for the next five years; with $25 asset year-end adjustment removed at April 1, 2015
- PSPP: At March 31, 2015, $74M is outstanding (income of $74M to be fully recognized for F2015 expense)	- PSPP: no impact if the year-end adjustment is to be reversed through expense (only 1 year of amortization is outstanding at April 2, 2015)
- OPSEUPP: At March 31, 2015, $35M (100%) is outstanding (income of $12M to be recognized for F2015, F2016 and $1M to be recognized for F2017 expense)	- OPSEUPP: the Province's expense portion (50%) will increase by $6M for the next two years; with $17 asset year-end adjustment removed at April 1, 2015

4. Adjustment to reflect the Province's share, year-end adjustment for accumulated contributions by other employers/agencies (non-consolidated/consolidated)

- Refer to "accounting approach – Ontario Pension Plans" provided by EY on 10 May 2017.
- For OTPP and OPSEUPP, less than 50% of the surplus would be reported by the Province under the proposed changes to reflect the portion related to other participating employers.
- Other considerations:
    - If the proportion related to other employers is to be updated annually and the treatment of the changes due to the annual proportion update (e.g. balance sheet adjustment vs reflect as experience gain/loss to be amortized through P&L).
    - The offsetting adjustment to "other consolidated agencies" and the overall impact (which should be minimal for PSPP and OPSEUPP, in aggregate); the true difference from the current approach to the proposed changes should correspond to reflecting portions associated with non-consolidated employers.