FW: Preparing for Pension Asset Expert Advisory Panel (Thanks in advance)

From:	"Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
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Date:	Thu, 17 Nov 2016 12:54:08 -0500
Attachments:	Table_tests.docx (20.3 kB); calculation_EFB_workbook_exp_pan.xlsx (45.87 kB)

James,

There are some changes to the table of actuarial assessments that need to be reflected in the position paper. Can you please make these edits and send the revised version. Thanks. Nadine

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From: Raymond, Martin (CA - Montreal) [mailto:maraymond@deloitte.ca]
Sent: November-17-16 12:36 PM
To: Petsche, Nadine (TBS); Gary, Trevor (CA - Toronto)
Subject: RE: Preparing for Pension Asset Expert Advisory Panel (Thanks in advance)

Nadine

We did review your table and made some adjustments / comments.

See the attached word document in track changes.

As for the workbook, find enclosed the excel file with the 5 situations described in the table.

Take NOTE that the last one, there is a slight adjustment from 12.9B to 14.2B – same conclusion though.

There was a small adjustment for the contribution stream based on ITA. Let me know if you prefer this reverts to 12.9B.

I am available to discuss this PM if you want us to have a short call.

Regards

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De : Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Envoyé : 13 novembre 2016 05:31
À : Raymond, Martin (CA - Montreal) < maraymond@deloitte.ca >; Gary, Trevor (CA - Toronto) < tgary@deloitte.ca >
Objet : Preparing for Pension Asset Expert Advisory Panel (Thanks in advance)

Hello Martin and Trevor.

We are in the process of compiling the documents for the Expert Advisory Panel and would like to make sure that we have the complete information presented in an easy to follow format. Below is an extract from our position paper which includes a summary of the models run to date to apply the asset ceiling test. We would appreciate it if you could make sure that the list is complete and that the descriptions are appropriate (note that 2 points for consideration as well). Also, to ensure that we have all of the information in one place for the Panel members to access, we were hoping that you could compile workbook of all of the models (with a separate tab for each run), including a lead summary tab.

Thanks in advance.

Nadine

Table 1: Summary of Asset Ceiling Models performed for OTPP

Model Assumptions	Expected Future Benefit or Asset Ceiling ($ Billions)	Results
1. There is no minimum employer contribution under the plan/legislation that is required if a surplus is present.	$44.6	There is no reduction in the expected future benefit (EFB) as at March 31, 2016.

2. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of the current funding report. Contribution requirements are $1.7B per year for 2015, 2016 and 2017.	$41.2	The minimum contribution requirement applies to the current period of the funding report and until a new report is completed. EFB [KJ(1] is reduced for 2 years by $1.7B at March 31, 2016.
3. 3. The employer minimum contribution considers the most recent funding valuation dated January 1, 2015 for the period of contribution requirement (i.e. 11 years through 2026) [KJ(2] not just for the period of the current funding report.	$29.3	Uses a period to 2026 (11 year period) based on the funding report special contribution requirement. The EFB at March 31, 2016 is reduced by $15.3B.
4. 4. The surplus is never used until the time it reaches the Income Tax Act (ITA) threshold. Once attained, the excess surplus is used at 50% for employees and 50% for the Province to reduce contributions in the following years.	$23.2	The ITA surplus limit is reached at the end of 2025, leading to forced contribution reductions from 2026. EFB is reduced by $21.4B at March 31, 2016
5. 5. Every year, 50% of current year surplus is applied to improve member benefits and the remaining 50% of the current year surplus is retained and continues to accrue. Once the ITA threshold is attained, the excess surplus is used 50%-50% to reduce contributions by employees and the Province.	$12.9	The ITA surplus limit is reached at the end of 2041 leading to forced contribution reductions from 2042. EFB is reduced by minimum $31.7B at March 31, 2016.

Note: Models above made no assumption on any value of the surplus withdrawal.

In all 5 models above, the expected future benefit (EFB) for OTPP is greater than the accrued pension asset of OTPP of $10.1 billion, at March 31, 2016. Even under the most conservative model (number 5 above) under which 50% of the current year surplus is applied to improve member benefits while the remaining 50% is retained and continues to accrue a return on assets until the Income Tax Act (IITA) surplus threshold is reached, the EFB of $12.9 billion is greater than the accrued pension asset of $10.1 billion. As such no valuation allowance was required and reported for OTPP as of March 31, 2016.

Confidentiality Warning:

Deloitte to advise on appropriate wording to include here (i.e. is EFB the appropriate term or should we use the term “present value of the expected future accruals for service for the current number of active employees”

Deloitte – please confirm based on current discussions with Alex Killoch