Fw: Wording for note to f/s re: hybrid model (NPP suggested edits)

From: "Veinot, Cindy (TBS)" <"/o=govon/ou=exchange administrative group (fydibohf23spdlt)/cn=recipients/cn=veinot, cindy (tbs)d57">
To: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
Date: Mon, 26 Sep 2016 14:34:06 -0400

Sent from my BlackBerry 10 smartphone on the Rogers network.

From: Veinot, Cindy (TBS) <Cindy.Veinot@ontario.ca>
Sent: Monday, September 26, 2016 14:11
To: Patel, Bharat (TBS)
Subject: FW: Wording for note to f/s re: hybrid model (NPP suggested edits)

Revised wording

18. Valuation of Pension Assets

The Province is a joint sponsor of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). Both of these plans are joint defined benefit plans and the Province accounts for its portion of each plan in accordance with the Public Sector Accounting Standards for defined benefit pension plans. Recording its portion of each of these plans has resulted in pension assets for OTPP and OPSUEPP for all years since fiscal 2001-2002. These plans are the only pension plans for which a pension asset is recorded.

A pension asset arises when the total of the Province's contributions to the plan as well as the interest earned on the assets in the plan is greater than the retirement benefit expense recognized since the inception of the plan.

When a pension asset arises, under Public Sector Accounting Standards, additional analysis is required to determine whether the government is entitled to fully benefit from the pension asset. If a government estimates that it will not be able to fully benefit from the asset, it records a valuation allowance against the asset to reduce the recorded net value of the asset. Generally, a sponsor would be able to benefit from an accounting surplus over time by reducing contributions to the plan.

Historically, the Province reported the full asset value on the consolidated financial statements as reflecting management's best estimate of expected future benefit from the accounting surplus. In the current year, the Province has revisited its evaluation of the recoverability of the pension assets. Based on the actuarial modelling completed, the Province continues to believe that the assets meet the accounting standards for recognition and that they are measured at appropriate amounts.

The actuarial modelling used to assess whether a valuation allowance is needed requires significant judgment, particularly in assessing the level of contributions that the Province will continue to make to the plan in the future, regardless of any surplus in the plan. These judgments and assumptions are further complicated by the fact that both of these plans are jointly sponsored plans, meaning that the two sponsors are responsible for making changes in the plan, whether they be related to the use of surplus or additional funding for deficits. Changes in these assumption could result in an additional valuation adjustment being recorded, which could be material to the financial statements.

Acknowledging the complexity associated with the accounting described above as well as the measurement uncertainty implicit in pension accounting as a whole, the Province has taken the prudent approach of not increasing the value of the pension assets recorded at the end of the prior year and has recorded a valuation allowance during 2015-16 which is equivalent to the amount of the increase in the pension assets that otherwise would have been recorded. In other words, the value of the pension assets related to OTPP and OPSEUPP are recorded at the same amount in both fiscal 2014-15 and fiscal 2015-16. The 2015-16 reported asset amount is net of a valuation allowance of $1.5 Billion. Recording a valuation allowance of $1.5 Billion in fiscal 2015-16 resulted in an increase in the annual deficit and net debt that would have otherwise been reported by $1.5 Billion.