Fw: auditor general and teachers' pensions

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Hi Len, Paul

Allan has provided a good explanation of the impact of different discount rates and the long term ability to access surplus.

I hope this helps.

Alex

Original Message
From: Allan Shapira <allan.shapira@aonhewitt.com>
Sent: Saturday, September 10, 2016 10:36 AM
To: Killoch, Alex (MOF)
Subject: RE: auditor general and teachers' pensions

I am not sure why this access is an issue at all because it has actually happened in the past when the government got surplus in exchange for the 85-point rule.

Has Deloitte opined on the amount?

An accounting asset represents a future economic value that the government could get through either an actual refund of surplus or through a reduction in contributions. Both of those methods of access are available here.

One of the basic difference in the funding and account valuations is the discount rate. The funding valuation builds in a number of margins. The account valuation is the best-estimate assumption. So we have one valuation that assumes the pension fund will earn 4.80% per year and another one that assumes the pension fund will earn 6.25% per year. You can only have one result, likely neither of these, but let's assume that one result is 6.25%. The economic assets does not have to be used today. It just has to be able to be used at some point in the future. In a world where contributions are based on a 4.80% rate of return and the pension fund earns 6.25%, we are going to continue to build up surplus that will eventually result in some form of funding reduction through for example a reduction in the basic contribution rate or even a contribution holiday for the government in exchange for a temporary benefit improvement for the members.

In a world where the pension fund actually earns 4.80%, then over time, we are going to get investment losses on the accounting valuation that will lead to an accounting pension expense higher than the contributions, in which case the accounting asset will start to be reversed.

In the end there is going to only be one stream of benefit payments and one investment return on the pension fund so funding and accounting have to come together. But that happens over very long periods of time so in the short term we need all these adjustments like assets or liabilities on the government's balance sheet..

Hope that helps a little.

Thanks

Allan