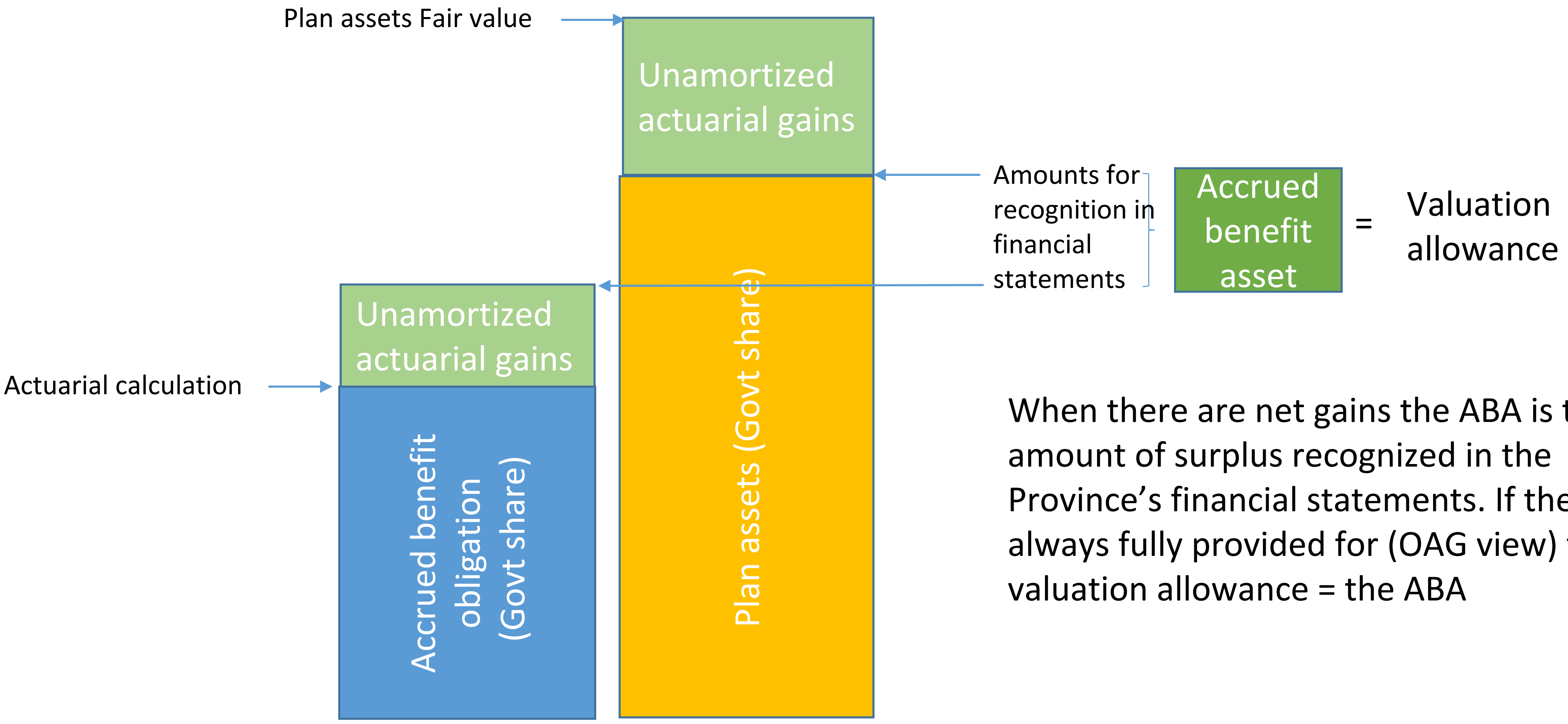
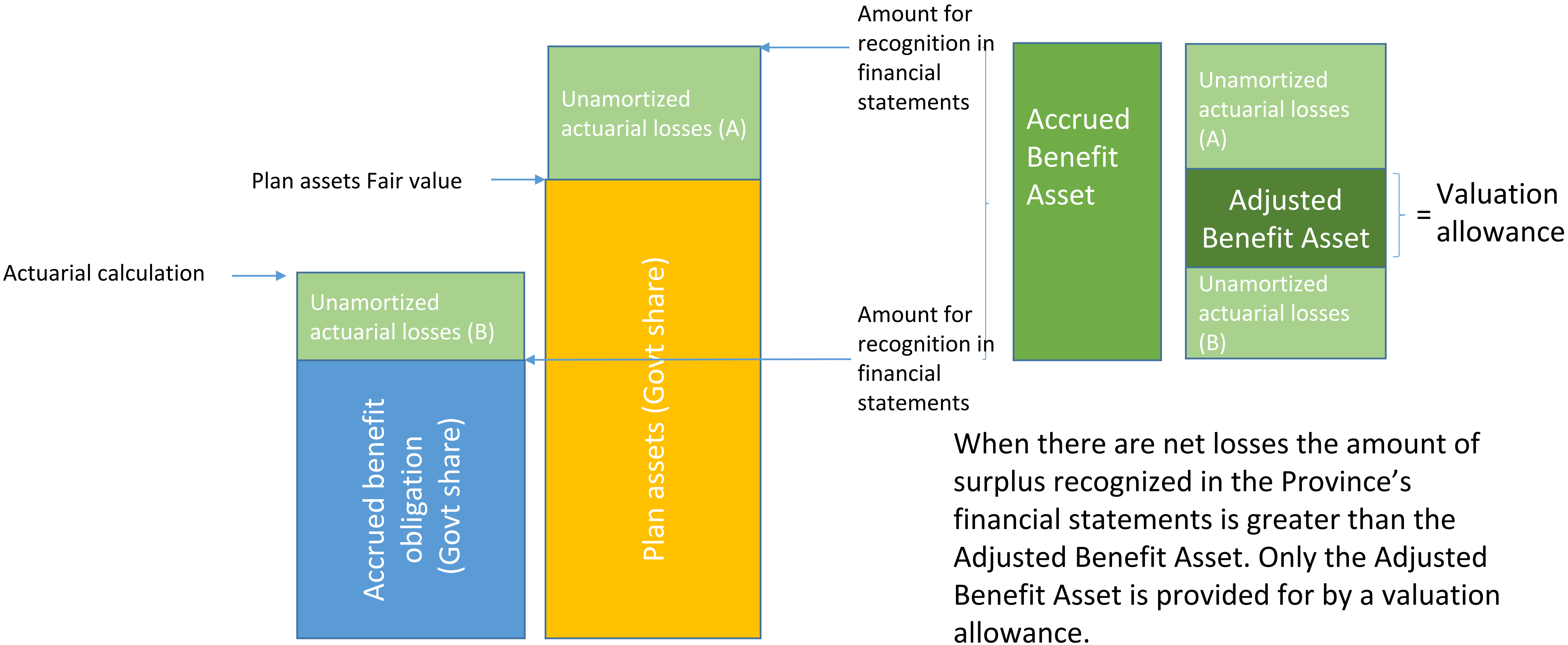
# Impact of a Valuation Allowance on Pension Assets

An Accrued Benefit Asset (ABA) occurs when there is a plan surplus, including the effect of net unamortized gains or losses. OTPP currently has net unamortized (unrecognized) gains. Actuarial gains can occur in respect of plan assets and the pension obligation




When there are net gains the ABA is the amount of surplus recognized in the Province's financial statements. If the ABA is always fully provided for (OAG view) the valuation allowance = the ABA

# An Adjusted Benefit Asset (ABA) is required when there are unamortized losses

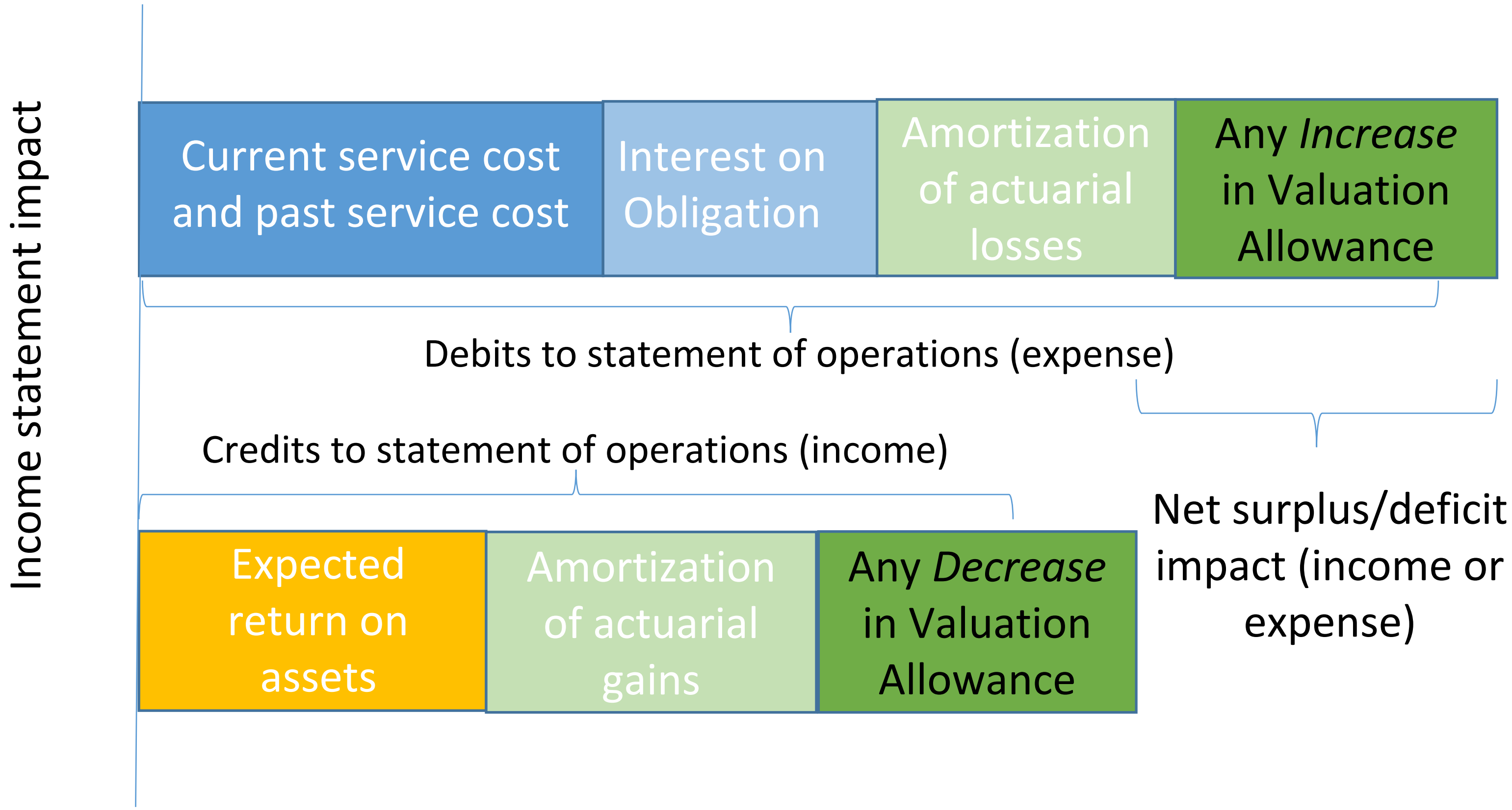



When there are net losses the amount of surplus recognized in the Province's financial statements is greater than the Adjusted Benefit Asset. Only the Adjusted Benefit Asset is provided for by a valuation allowance.

# Components of Expense

The *change in* the valuation allowance flows directly through the statement of operations.

The change in valuation allowance = the change in the ABA



# Changes in the Accrued Benefit Asset

Changes in the ABA may occur for a number of reasons. If all changes in the ABA result in a change in the valuation allowance (VA) to reduce the ABA to zero the following impacts on the statement of operations would be noted [1]

### Event or circumstance

Contributions in excess of current service cost – i.e. additional funding

2015-2016 example:
Contributions of $1,812M exceeded other elements of pension expense by $1,514M

### Impact on ABA

Plan assets increase more than the ABO

2015-2016 example:
Additional contributions increase plan assets. ABA increases by $1,514M

### Impact on VA

VA increases to reduce ABA to zero

2015-2016 example:
ABA increase of $1,514M results in an increase to the VA of $1,514M

### Impact on Fiscal position

Fiscal position worsens with additional funding

2015-2016 example:
Deficit increases by $1,514M.

The cash paid for contributions has not resulted in an asset and so is an expense, despite the funding position of the Province's share of the plan has been improved by the additional contributions.

[1] Impact of change, all other elements being held constant.

# Changes in the Accrued Benefit Asset

Changes in the ABA may occur for a number of reasons. If all changes in the ABA result in a change in the valuation allowance (VA) to reduce the ABA to zero the following impacts on the statement of operations would be noted [1]

| Event or circumstance | Impact on | Impact on VA | Impact on Fiscal Position |
|---|---|---|---|
| Investment returns worse than expected e.g. economic downturn | The ABA does not decrease significantly. The Adjusted Benefit Asset does. | VA decreases – lower allowance than prior year required | Fiscal position improves in an economic |
| Plan assets fair values significantly lower in one year. Assuming no net amortized gains/losses in prior year this would create net *unamortized losses* as the use of market related values means the changes in plan assets are smoothed over 5 years. | The ABA is based on the higher, smoothed plan assets and does not change. However the actuarial losses are subtracted from the ABA to give a smaller adjusted benefit asset than the ABA | Prior year allowance was based on ABA. Current year is based on because only the adjusted benefit asset is provided against. The adjusted benefit asset is smaller than the ABA because of the increase in unamortized losses. | Fiscal position will be improved as a reduction in the VA results in a gain in the income statement in that year. The increased actuarial losses would only impact in future years.<br><br>A similar impact would have been noted in 2008 if the OAG's position was reflected in the financial statements for that year. |

[1] Impact of change, all other elements being held constant.