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19 September 2017
DRAFT

Alicia Sun
Manager, Broader Public Sector Reporting
Office of the Provincial Controller Division
Office of the Treasury Board, Treasury Board Secretariat
Frost Building South, 7 Queen's Park Cres E
Toronto ON M7A 1Y7

Dear Alicia,

You have requested a summary description of our work related to the models used by the Provincial Controller's Accounting Policy and Financial Reporting Branch ("APFR") to prepare pension accounting results related to the defined benefit pension plans reflected on the Province's fiscal year 2016-2017 ("FY2017") financial statements under Public Sector Accounting Standard 3250 ("PS 3250"). This work was part of our Statement of Work effective 3 February 2017 (RFS TBS-OTB-OPCD-20).

Our work does not constitute an accounting opinion and should not be used as such. This document is intended for Office of the Provincial Controller Division's ("OPCD") use only. Please inform us in writing if you would like to share this document more broadly.

Our work related to the following defined benefit pension plans ("Pension Plans"):

- Ontario Teacher's Pension Plan ("OTPP")
- Ontario Public Service Employees Union Pension Plan ("OPSEUPP")
- College of Applied Arts and Technology Pension Plan ("CAATPP")
- Healthcare of Ontario Pension Plan ("HOOPP")
- Public Service Pension Plan ("PSPP")
- Public Sector Supplementary Plan ("PSSP")
- Ontario Teacher's Retirement Compensation Arrangement ("RCA")

For each Pension Plan, on a whole plan's basis (i.e. 100%), we reviewed the following elements of the OPCD models and identified any potential refinements and/or issues with the computation integrity of the expense and disclosure under PS 3250:

- Inputs[1]
  - Actuarial information provided to OPCD, and the correct interpretation and appropriate reflection of the information in OPCD's calculation models
  - Assumptions, valuation method and data used by the actuaries in determining the actuarial information for OPCD, and their appropriateness for PS 3250 reporting purposes

[1] While we assisted OPCD with understanding the inputs provided and assessing whether inputs are used appropriately for accounting reporting, we did not review the reasonableness of inputs.

- Net liability/asset position
  - Beginning of fiscal year plan asset, obligation, unamortized gain/loss balances, and their consistency with the amounts at the prior fiscal year-end
  - The ending net liability/asset position reconciliation from the opening net liability/asset position, considering current year's expense and contributions
  - The ending net liability/asset position reconciliation from the ending position of obligation, asset, and unamortized gain/loss balance
- Pension expense
  - Magnitudes of the interest cost and expected return on plan asset, given the assumptions at the beginning of the fiscal year and the opening net position of the Plan
  - Magnitude of the actuarial gain/loss recognized in the fiscal year's expense; given the unamortized gain/loss schedule at the beginning of the year and the expected remaining service lifetime (EARSL)
  - Past service cost/(credit) recognition and/or adjustment to gain/loss schedule due to plan amendment (if applicable)
- Unamortized gain/loss
  - Reconciliation of unamortized gain/loss; given the opening balance, new net actuarial gain/loss, plan amendment (if applicable), and the amount amortized in the fiscal year expense
- Assets
  - Plan asset determination on a market-related value of asset basis and the smoothing adjustment, considering the gain/loss on a market-value of asset basis
- Limitation on accrued benefit asset
  - Asset ceiling test and valuation allowance, if applicable[2]

We then subsequently considered the following elements and identified any potential refinements and/or issues related the portion of each Plan determined by OPCD to be reported under the Province's consolidated financial statement:

- The approach in estimating the portion of each Plan to be reported by the Province
- The calculation integrity of the Province's portion of expense and disclosure in the Province's financial statement
- The accounting treatment related to consolidated and non-consolidated agencies/employers
- The accounting treatment related to employee contributions
- Consistency in accounting models among Pension Plans
- The existing balance sheet adjustments made by OPCD (historical cumulative transfer, contribution gain/loss)
- The determination of the contribution gain/loss for the Province

Based on the procedures performed, we have provided recommended refinements to the existing models related to the following:

- Clarification on inputs received by OPCD
- Consideration of the appropriateness of actuarial information provided (method used) and the revision of OPCD's accounting valuation method for PSSP to be consistent with the requirement under PS 3250; with the understanding that the Plan is immaterial to the Province's consolidated financial statements

[2] Refer to the "OPSEUPP recognition of accrued benefit asset" and "OTPP recognition of accrued benefit assets" dated 23 August 2017 for more details of our analysis

- Consistent MRVA calculation among Pension Plans (without changing the length of the existing smoothing period); MRVA calculation to be performed by OPCD and eliminate reliance on external actuaries
- Estimation of the Province's portion of each Plan, based on the contribution allocation among the Province, consolidated, and non-consolidated employers/agencies
- Accounting treatment of the substantial lag in contributions for OTPP and considerations on portion of assets to be reported by the Province
- Reversal of existing Province's specific year-end adjustments, related to historical cumulative transfer, contribution differences gain/loss[3]
- Simplification and improved usability of calculation models

We have also provided a recommended checklist of pension reporting procedures which OPCD can use as a reference when reviewing the computation integrity of the expense and disclosure prepared.

CC: Cindy Veinot
Mark Donaldson

[3] Refer to the "comparative figures – narrative and commentary (draft)" dated 19 May 2017 for more details of our analysis