TBS

Office of the Provincial Controller Division

Accounting for Pension Assets – OTPP and OPSEUPP

September 13, 2016

Draft – for discussion purposes

Government's Position on Pension Assets

- To date, pension assets reflected on the audited consolidated financial statements of the Province are based on an appropriate and consistent interpretation and application of Public Sector Accounting Standards (PSAB)
- Almost all (more than 90%) of the pension asset relates to OTPP. That plan has been in an asset position on the Province's financial statements for the past 16 years, including 2014 and 2015 which were signed by the current AG ($7.7 billion and $8.7 billion respectively)
- Valuations of pension assets based on PSAB standards reflect management's best estimates which is appropriate for measuring the asset values in the Public Accounts
- Decisions taken by OTPP in selecting assumptions for the plan's stand-alone financial statements, and assumptions by OTPP for purposes of preparing a funding valuation are separate and distinct from the Province's accounting which is determined based on PSAB standards
- Reporting the Province's surplus on a basis which is not aligned with PSAB standards would mis-represent the Province's financial position and results

Auditor General's position

- The AG does not agree with the Province's interpretation of PSAB standards and the measurement of the pension assets reported for OTPP and OPSEUPP.

- On September 13, 2016, the AG provided a written opinion in inform the Province that the Province does not have an enforceable right to the future benefits associated with plan surpluses of OTPP and OPSEUPP, and thus the Pension Asset as presented in the Province's consolidated financial statements should be removed.

- AG's key argument are:
  - The pension assets are not unilaterally controlled or accessible by the Province until agreements are reached between the plans' sponsors/partners on the use of the surplus.
  - The Province does not have a agreement in place as of March 31, 2016, that gives the Province legally enforceable right to unilaterally <u>access</u> the assets of the Plans (i.e. withdraw assets from the plan for other uses)

- AG's primarily focus on PSAB standards section PS 3250.059 (See Appendix)

Province’s Counter-Position

- The Province is entitled to have access to the surplus related to the share of the plan that it is responsible for.

Estimated impact on AG's Position

- Assets recognized by the Province in the Public Accounts for these two plans are:

(in billions)	March 31, 2016 (preliminary)	March 31, 2015 (audited)
OTPP	$ 10.1	$ 8.7
OPSEUPP	$ 0.5	$ 0.5

- Impact of adopting the AG's position would require:
  - Increase opening accumulated deficit for the March 31, 2016 year by $9.2 billion
  - Increase in the annual deficit for the 2015-16 year by $1.4 billion ($10.6 billion - $9.2 billion)
  - Increase total liabilities as at March 31, 2016 (impacts net debt) by $10.6 billion

2015-16 Public Accounts -- Fiscal Impact of AG's position

(in billions)	As currently reported	Adjustment	As adjusted
Statement of Operations			
Revenues	$ 128.4		$ 128.4
Expenses	132.2	1.4	133.6
Annual Deficit	(3.8)	(1.4)	(5.2)
Statement of Financial Position			
Financial assets	$ 83.5		$ 83.5
Liabilities	378.4	10.6	389.0
Net debt	(294.9)	(10.6)	(305.5)
Non-financial assets	102.5		102.5
Accumulated deficit	(192.4)	(10.6)	(203.0)
Gross Domestic Product (GDP)	747.1		747.1
Net Debt as a Percent of GDP	39.5%		40.9%

Next steps in process

- AG to share issues summary with OPCD when available (may be September 13)
  - AG will not share written opinions she has sought (from CCOLA and national accounting firm)
    - We are not aware of the facts provided or the questions asked
  - AG will not permit us to speak to her advisors

- AG did agree to have a discussion with the Province's advisors
    - We have requested a discussion at 6:30 pm on September 13, but have not heard back from the AG

Potential outcomes of next steps

1. **AG changes her view to align with Province's view**
   - Issues summary from AG will provide additional insight into their views; to the extent we disagree with their views, we may be able to provide additional analysis to support the Province's view

   - If discussion between AG and the Province's external advisors (Deloitte) provides convincing arguments to help change the AG's interpretation of PSAB, this could be bolstered by a formal accounting opinion by Deloitte.

Potential outcomes of next steps

2. **AG does not change her view**
   a) Province agrees to reduce asset value to Province's share of surplus based on funding valuation
      - Impact on financial results for 2016 and beyond
      - Risks of accepting the AG's position on following slides

   b) Province accepts a qualified audit opinion
      - Communication of reason for qualification
        - AG could suggest that the Province has been understating liabilities and making the results appear more favourable

Risks to accepting the AG's postion

- By accepting AG's position, the Province can no record a pension asset for OTPP or OPSEU, as the Province would need to record a valuation allowance up to the value of the net pension asset to bring the balance back to zero.

- Going forward, pension expense for OTPP and OPSEU will approximately equal to the Provincial cash contributions made during the fiscal year as long as the plans are in surplus position. This is approximately $1.6 billion for OTPP and $214 million for OPSEU.

Appendix

- PS3250.59
  - *A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.*