TBS

Office of the Provincial Controller Division

Accounting for Pension Assets – OTTP and OPSEUPP

September 12, 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 OTTP. That plan has been in an asset position on the Province's financial statements for the past <u>16 years</u>, 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
- Assets recognized by the Province in the Public Accounts for these two plans are:

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

- On September 12, 2016, TBS shared a draft legal opinion with the AG which supported the Province’s ability to access the benefits associated with the surplus
- As of September 12, 2016, despite the legal opinion, the AG remains convinced that the measurement of the surplus should be based on the OTPP’s funding valuation as a starting point which is more conservative and compiled for different purposes which are not PSAB related. She feels that this alternate pension asset value is relevant and has requested information on the government’s plans to access the pension asset in the current year

- Given the relative size of the asset values in question, the balance of the deck will focus on OTTP.

Estimated impact to based on AG’s methodology

- The following table compares the Province’s respective asset values currently reported in the Public Accounts to 50% of the surplus based on the funding valuation as disclosed on the OTTP website

(in billions)	2016	2015
100% of surplus per funding valuation (OTTP Website)	13.2	6.8
50% of surplus per funding valuation	6.6	3.4
Vs.		
Asset value recorded by the Province	10.1	8.7
Excess of asset over 50% of surplus per funding valuation	(3.5)	(5.3)

- Impact of adopting the AG’s methodology would require:
  1. Increase opening accumulated deficit for the March 31, 2016 year by $5.3 billion
  2. Reduce the annual deficit for the 2015-16 year by $1.7 billion ($5.3 – 3.5)
  3. Increase total liabilities as at March 31, 2016 (impacts debt and net debt) by $3.5 billion

- We have not confirmed with the AG that she would accept the calculation. She may only accept the value of the asset based on plans agreed to by the parties – for 2016, that amount would be approximately $4.3 Billion vs. $6.6 Billion.

2015-16 Public Accounts -- Potential Impact

(in billions)	As currently reported	Adjustment	As adjusted
Statement of Operations			
Revenues	$ 128.4		$ 128.4
Expenses	132.2	(1.7)	130.5
Annual Deficit	(3.8)	(1.7)	(2.1)
Statement of Financial Position			
Financial assets	$ 83.5		$ 83.5
Liabilities	378.4	3.5	381.9
Net debt	(294.9)	(3.5)	(298.4)
Non-financial assets	102.5		102.5
Accumulated deficit	(192.4)	(3.5)	(195.9)

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
   - Discussion between Deloitte and AG will provide convincing arguments
   - An accounting opinion from Deloitte will result in the AG changing her view

2. AG does not change her view
   - 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
   - Province delays issuance of public accounts
     - Impact of delay; public perception
     - Will the AG agree to involve another party for purposes of resolving the issue
     - Can the province approach CCOLA for an opinion?

Risks to accepting AG's methodology

- Not based on PSAS
- The use of a funding valuation to value a pension asset is not consistent with any other accounting framework
  - Canadian GAAP prior to the adoption of IFRS was consistent with PSAS
  - IFRS has a specific methodology that is similar to PSAS
  - US GAAP does not have the concept of a valuation allowance

- In the current year, the AG has also noted that there needs to be a plan in place that is agreed to between the parties to use the asset; in the current year, the timing of the public accounts coincides with an announcement regarding use of the funding surplus
  - It is unclear what the AG's position would be if the surplus was left in the plan for a period of years as has been done in the past – would the asset be required to be reduced to NIL?

Risks to accepting the AG’s methodology

- Because we do not understand how the AG is getting to her current position based on PSAS, we would have no ability to predict the accounting implications of future transactions – we would be subject accounting standards as interpreted by the AG at the time of her interpretation

- OTTP is not required to obtain a funding valuation each year (only required every 3 years).
  - If OTTP does not obtain a valuation, what is the value of the asset based on?
  - Can the Province require OTTP to obtain a funding valuation?