Office of the Provincial Controllers Division | Accounting Policy and Financial Reporting

Independent Pension Asset Expert Panel – Business Case

October 5, 2016

President of Treasury Board

Deputy Minister of Treasury Board

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Details of the nature, timing and impact of the issues the short-term expert panel is mandated to address.

Background

In connection with the preparation and audit of the 2015-16 Public Accounts, the Office of the Auditor General and the government's professional accounting staff disagreed regarding the application of Public Sector Accounting Standards (PSAS) to pension assets related to two pension plans that the Province jointly sponsors – Ontario Teachers' Pension Plan (OTPP) and Ontario Public Service Employees' Union Pension Plan (OPSEUPP).

As described in PSAS, a pension asset arises when the government's total contributions to a plan, including income earned thereon, are greater than the cumulative retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the estimated cost of the pensions earned during the year that will be paid out to retirees in the future.

The Province's position is that the asset balance (or plan surplus for accounting purposes) in OTPP and OPSEUPP are an asset to the province and it is suitable to reflect them in the financial results. The Office of the Auditor General disagrees with this position and is requesting a valuation allowance to reduce the asset value which would result in an in-year expense.

Ontario had followed the same pension accounting treatment for all of the past 14 years. This had been accepted by the current Auditor General for the last two years and by the three previous Auditors Generals. There has been no change to the relevant PSAS (i.e. RETIREMENT BENEFIT, Section PS 3250) over the past 14 years.

The government passed a time-limited regulation under the Financial Administration Act (FAA) to require the accounting for these pension assets align with the interpretation of the Auditor General. This time-limited regulation enabled the professional accounting staff to take responsibility for the preparation of the Public Accounts in accordance with legislation and PSAS.

Nature of issues to be addressed by the expert panel

Upon approval Ontario will engage an expert panel appointed by the President of the Treasury Board to review the application of the PSAS to accounting for pension assets and provide advice to government.

The expert panel's advice and recommendations to the government will consider:

- The requirement regarding control with respect to recognizing a pension asset for a joint defined benefit plan.
- The requirement regarding control with respect to recognizing a pension asset for other pension plans.
- Appropriate valuation techniques to measure a pension asset that take into consideration future decision making authority by plan sponsors.
- Recommendations to the Employee Future Benefits Task Force of the Public Sector Accounting Board regarding issues that should be considered in their review of the retirement and post-employment benefits standards.

The final report will be submitted to the President of the Treasury Board and provided to the Auditor General of Ontario, and made public thereafter.

Timing of the expert panel

It is intended that the expert panel will commence their review immediately on appointment of its members. A report to the President of the Treasury Board and the Auditor General of Ontario is due by December 31, 2016.

Impact of the issues to be addressed by the expert panel

The future accounting for the pension assets in the preparation of the Province's financial statements will be guided by the report of the expert panel.

Accounting for pension assets directly impacts key financial balances of the Province including its:

- liabilities,
- net debt
- surplus/deficit, and
- accumulated surplus/deficit.

These balances are highly reported and politically significant.

A description of any professional competencies required to fulfil the responsibilities of the position (e.g. negotiation, engineering, medicine, law or other field).

The membership of the expert panel will comprise experts in the areas of:

- jointly sponsored pension plans,
- actuarial modelling for pension plans, and
- PSAS.

Members of the panel should have a range of backgrounds and experience, including preparers of public sector financial statements, joint sponsors, and auditors of public sector financial statements.

All members will be appointed by the President of the Treasury Board.

The identified members will be required to attend/participate in the meetings; no substitutes or alternates will attend in place of a member.

The Province will also identify individuals to support the expert panel and work collaboratively to provide information related to the pension plans sponsored by the Province of Ontario.

Comparative research on remuneration, with a focus on public sector comparables, including other appointees with comparable skills, or current appointee remuneration in other jurisdictions.

We commit to follow the Agencies & Appointments Directive as established by the Management Board of Cabinet dated July 2016.

It is intended to research compensation arrangements for similar panels and be compliant with the Agencies & Appointments Directive and obtain any necessary approvals where required

Restrictions on remuneration, if any, which may apply to appointees selected from within the Broader Public Sector for the purposes of minimizing the potential for individuals being remunerated twice in respect of their role as a special advisor.

We commit to following the Agencies & Appointments Directive as established by the Management Board of Cabinet dated July 2016.

The Province will be responsible for the costs of the appointed members to attend the meetings. The costs of any individuals supporting the work of the Panel will also be borne by the Province.