



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

Independent Pension Asset Expert Advisory Panel – Business Case

October 5, 2016

President of Treasury Board

Deputy Minister of Treasury Board

Table of Contents

Request	2
Purpose of the Request	2
Business Case Rational / Background	3
Performance Measurement	4
Financial Implications	5
Legislative and Regulatory Requirements	5
Risks and Mitigating Strategies	5
Stakeholder Engagement	6
Communications and Issues Management	6
Recommendation	6
Proposed Minute	6
Proposed Terms of Reference	7

Request

To approve the establishment of the Pension Asset Expert Advisory Panel via a Minister's order.

Commented [CV1]: Advisory was not in the title for the final terms of reference

To endorse establishing the Review and the terms of reference

Purpose of the Request

Upon approval Ontario will engage an advisory 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 advisory 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.

The Minister would determine the terms of reference of the Advisory Panel and may amend them from time to time.

The Advisory Panel would be comprised of members appointed by the Minister, and the Minister will decide on the number of members and may designate one member as the chair.

The members of the Advisory Panel, including the chair, shall serve at the Minister's pleasure for a period not extending beyond March 31, 2017.

The Agency Establishment and Accountability Directive states that the establishment of short-term bodies, such as a review, require:

- a constituting instrument with a termination date;
- terms of reference;
- a remuneration Order in Council, if necessary; and
- the approval of Treasury Board/Management Board of Cabinet.

Business Case Rational / 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 assets 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 requested 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) since it was introduced 14 years ago.

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.

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

The future accounting for the pension assets in the preparation of the Province's financial statements will be guided by the report of the advisory 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 key performance indicators for the Province.

The membership of the advisory 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.

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 work collaboratively to provide information related to the pension plans sponsored by the Province of Ontario.

Performance Measurement

Submission of final report by June 30, 2015 and within approved budget.

Commented [CV2]: Not sure where this comes from – Report is due by December 31, 2016 and we haven't set a budget.

Financial Implications

Given the urgency of this request, a detailed budget will be provided subsequently.

Within a budget approved by the Ministry of the Attorney General, the Independent Reviewer may retain such counsel, staff, or expertise considered necessary in the performance of their duties at reasonable remuneration approved by Treasury Board Secretariat. They shall be reimbursed for reasonable expenses incurred in connection with their duties in accordance with Treasury Board/Management Board of Cabinet Directives and Guidelines.

Commented [CV3]: Why Attorney General

Commented [CV4]: Assumed this should be panel?

The Independent Reviewer shall follow Treasury Board/Management Board of Cabinet Directives and Guidelines and other applicable government policies in obtaining other services and goods considered necessary in the performance of duties unless, it is not possible to follow them.

Commented [CV5]: Members of the Panel?

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

The members of the Advisory Panel, including the chair, shall be paid such remuneration and expenses as the Lieutenant Governor in Council may determine.

Commented [CV6]: Expert?

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

Legislative and Regulatory Requirements

No legislative or regulatory changes or requirements are needed. The Pension Accounting Review will be established by an OIC.

Commented [CV7]: Can we use the name of the panel?

Risks and Mitigating Strategies

Establishing the Pension Accounting Review Panel is in itself a significant mitigation strategy in addressing the questions that have been raised about the Province's accounting for the pension assets..

Commented [CV8]: See previous comment

Stakeholder Engagement

In conducting the review, the Independent Reviewer may request any person to provide information or records to him and may hold public and/or private meetings and interviews.

Commented [CV9]: Panel?

Commented [CV10]: See previous comment

The Independent Reviewer may invite and receive submissions in writing from the Auditor General as well as from any interested party, including relevant ministries of the government. The completion of the work of the Panel is not dependent on receiving submissions from any party, including the Auditor General

Commented [CV11]: Panel?

Communications and Issues Management

A communication plan will be developed for the review. All additional communications relating to the Review will be the responsibility of the Reviewer and his/her staff.

Commented [CV12]: Let's use consistent language – eg. Panel or Expert Panel

Commented [CV13]: I'm not sure this makes sense

Treasury Board Secretariat shall make the final report of the Independent Reviewer available to the public. In delivering the report to the Ministry, the Independent Reviewer shall ensure that the report is in a form appropriate for public release, consistent with the requirements of the Freedom of Information and Protection of Privacy Act and other applicable legislation. The Independent Reviewer shall also ensure that the report is delivered in both English and French at the same time, in electronic and printed versions in sufficient quantity for public release.

Commented [CV14]: See above re: consistent terminology

Recommendation

That Treasury Board/Management Board of Cabinet approve the request to establish the Pension Accounting Review Panel.

Commented [CV15]: title

That Treasury Board/Management Board of Cabinet endorse the Ministers order establishing the Review and the terms of reference.

Proposed Minute

- Note that the Ministry to return to Treasury Board/Management Board of Cabinet with the constituting instrument establishing the Pension Asset Expert Advisory Panel.

Commented [CV16]: title

- Note that the Ministry will return to Treasury Board/Management Board of Cabinet for approval of remuneration rates for panel members and with the related Order-in-Council.
- Note that expenses will be paid in accordance with the Travel, Meal, and Hospitality Expenses Directive and that any other relevant directives and policies will apply.
- Note that members will be appointed by Minister's letter
- Direct the Ministry to manage any costs of the review from within its approved allocations.

Commented [CV17]: to discuss with Karen

Proposed Terms of Reference

Terms of Reference

Background

In connection with the preparation and audit of the 2015-16 Public Accounts, 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 and Ontario Public Service Employees' Union Pension Plan. The government passed a time-limited regulation 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.

The government released an annual report and unaudited financial statements on October 3, 2016, and concurrently announced that an expert panel would be formed to review the application of PSAS to these pension assets.

On October 5, 2016, the Auditor General issued a qualified report on the 2015-16 Public Accounts. While the 2015-16 results were accepted by the Auditor General, the audit opinion was qualified because the comparative financial balances were not restated for the prior year to write off the pension assets.

Governance

An Expert Panel is established as a short-term advisory body 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 final report will be submitted to the President of the Treasury Board and provided to the Auditor General of Ontario, and made public thereafter.

The future accounting for the pension assets in the preparation of the Province's financial statements will be guided by the report of the panel.¹

Mandate

The Expert Panel's mandate is to deliver advice and recommendations to the government on the application of PSAS to the recognition and measurement of pension assets. 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.

Timelines

A report to the President of the Treasury Board and the Auditor General of Ontario is due by the end of 2016.

Membership

The membership of the Panel will comprise experts in the areas of jointly sponsored pension plans, actuarial modelling for pension plans and Public Sector Accounting Standards. All members will be appointed by the President of the Treasury Board.

The identified members should attend/participate in the meetings; no substitutes or alternates should attend in place of a member.

Support

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

Funding

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.

¹ The Public Sector Accounting Board established a task force to review the standards on pension plans. Should their review results in changes to the standards, these new standards would be applied by the Province.