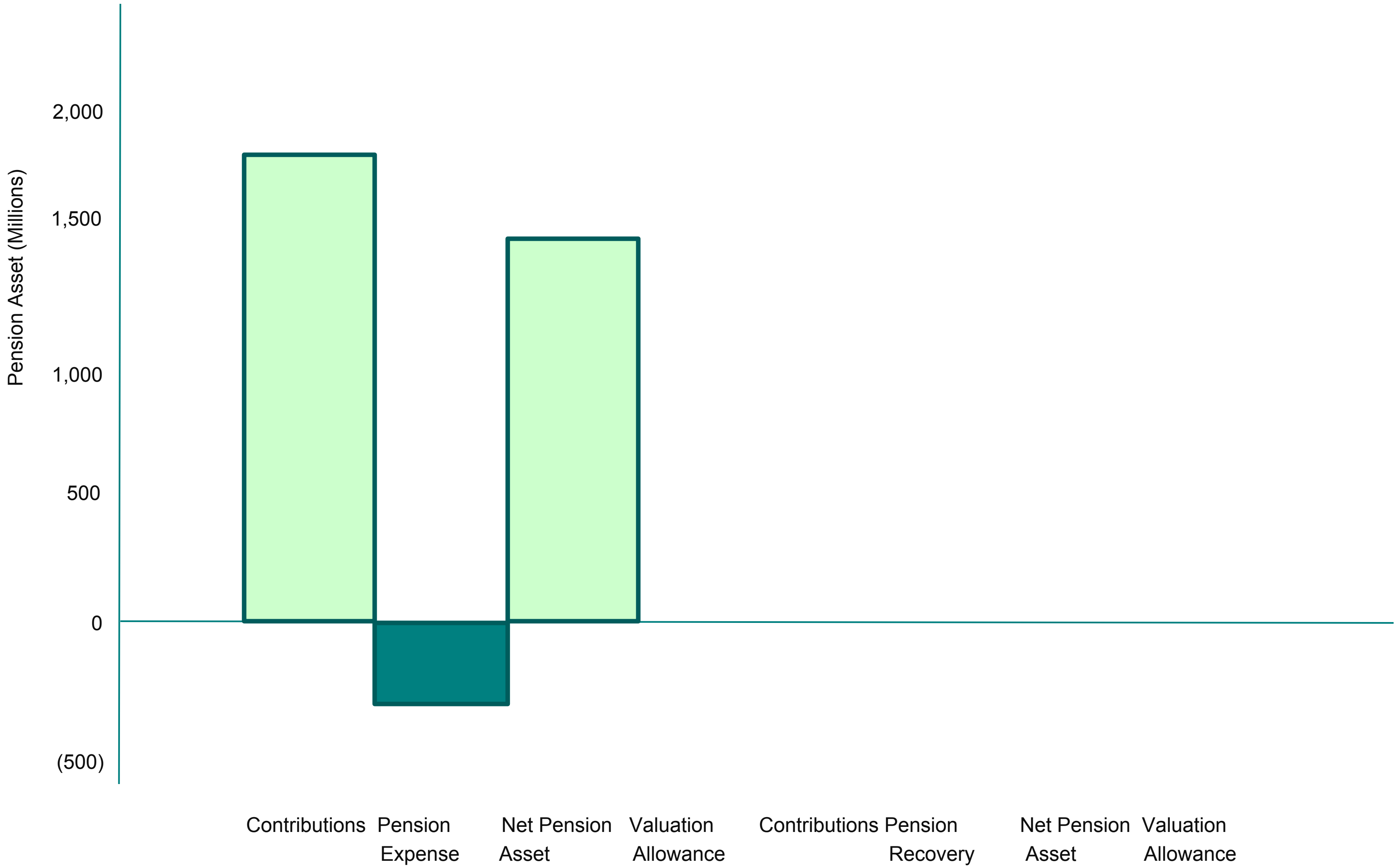
TBS

OPCD

Detailed analysis of pension accounting for FES

October 23, 2016



Pension Asset (Millions)
2,000
1,500
1,000
500
0
(500)
Contributions
Pension Expense
Net Pension Asset
Valuation Allowance
Contributions
Pension Recovery
Net Pension Asset
Valuation Allowance

Employer Contributions

$1.9 Billion

+

Pension recovery

$0.3 Billion

=

Increase in pension asset

$2.2 Billion

Explanation of Pension Asset

Balance of net assets before impact of regulation	31-Mar-15	a	9,154
Write down of assets based on regulation (AG's interpretation)		b	(9,154)
Revised net asset value based on regulation		c=a+b	0
Pension expense in fiscal 2015-16		d	(298)
Contributions to plans in fiscal 2015-16		e	1,812
Pension asset prior to valuation allowance	31-Mar-16	f=d+e	1,514
Valuation allowance, based on regulation (AG's interpretation)		g	(1,514)
Revised net asset value based on regulation		h=f+g	0
Pension **recovery** estimated for fiscal 2016-17		i	317
Contributions to plans in fiscal 2016-17		j	1,901
Impact of HOOPP plan (not included elsewhere as immaterial)		k	22
Pension asset prior to valuation allowance	31-Mar-17	l=i+j+k	2,240
Valuation allowance based on AG's interpretation (no regulation)		m	(2,240)
Revised net asset value based on regulation		n=l+m	0

2015-16 Public Accounts

In 2015-16, the increase in the pension asset for OTPP and OPSEU resulted from the **net** of:

1) Pension **expense** (reduces net asset)

2) Contributions from the Province to the plan (increases net asset)

2015-16 actual fiscal impact of full valuation allowance

2016-17 FES

In 2016-17, the estimated increase in the pension asset for OTPP and OPSEU results from the **sum** of:

1) Pension **recovery** (increases net asset) – see next slide

2) Contributions form the Province to the plan (increases net asset)

2016-17 estimated fiscal impact of full valuation allowance

Why does pension expense become a recovery in 2016-17?

The pension recovery estimated for fiscal 2016-17 for OTPP and OPSEUPP is:

OTPP -- Pension recovery	(452)
OPSEUPP -- Pension expense	135
Analysis of pension recovery for OTPP	(317)

Why is OTPP in a recovery position?

The pension recovery is made up of:

Current period benefit cost	1,512
Expected interest on accumulated obligation (6.25%)	3,617
Expected return on assets (6.25%)	(4,871)
Amortization of net actuarial gains	(682)
Other adjustments	(27)
Pension recovery	(452)

Two key issues:

- The assets exceed the obligation in the plan (measured using a discount rate based on the long-term rate of return on assets -- 6.25%), therefore, the expected return on the assets exceeds the interest on the obligation
- The **actual** performance of the assets has exceeded the **expected** performance, therefore leading to net actuarial gains that are being amortized over time, also offsetting the benefit cost

Is there a net pension asset?