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OPCD

Detailed analysis of pension accounting for FES

October 24, 2016

OTPP and OPSEU – Expected change in net pension asset & impact on Fiscal 2016-17

Employer contributions
$1.9 Billion

No impact on annual deficit initially

+

Expected pension recovery
$0.3 Billion

Reduces annual deficit initially

=

Increase in pension asset
$2.2 Billion

The AG requires a valuation allowance for the full increase in the pension asset unless the Province has:
(a) unilateral control of the asset or (b) an agreement with the co-sponsor to reduce contributions.

Net pension asset (prior to valuation allowance)
$ 2.2 Billion

+

Valuation allowance
(AG Interpretation)
($2.2 Billion)

Increases annual deficit

=

Net pension asset after valuation allowance
$0

Valuation allowance – Fiscal 2015-16 and 2016 FES

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OTTP and OPSEU Pension Plans	
Net pension assets before impact of regulation ---31-Mar-15	9,154
Write down of assets based on regulation (AG's interpretation) – to accumulated deficit	(9,154)
Revised net pension assets value based on regulation	0
Pension **expense** in fiscal 2015-16	(298)
Contributions to plans in fiscal 2015-16	1,812
Net Pension assets prior to valuation allowance -- 31-Mar-16	1,514
Valuation allowance, based on regulation (AG's interpretation)	(1,514)
Revised net asset value based on regulation	0
Pension **recovery** estimated for fiscal 2016-17 (see slide 4)	317
Contributions to plans in fiscal 2016-17	1,901
Impact of HOOPP plan (not included elsewhere as immaterial)	22
Net pension asset prior to valuation allowance -- 31-Mar-17	2,240
Valuation allowance based on AG's interpretation (no regulation)	(2,240)
Revised net asset value based on AG's interpretation	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 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 slide 4

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

2016-17 estimated fiscal impact of full valuation allowance

Why is there a pension recovery for OTPP expected in Fiscal 2016-17?

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

	($ millions)
OTPP -- Pension recovery	(452)
OPSEUPP -- Pension expense	135
OTPP and OPSEUPP – net pension recovery	(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

Notes:

- There is no disagreement between the Province and the AG on the computation of pension expense/pension recovery.
- This slide is to explain why the Province budgeted income being generated from OTPP, as most would expect the co-sponsor of a pension plan to recognize an expense for pensions.
- Fiscal 2016-17 is the first year since the new pension standard was adopted (14 years ago) that OTPP is expected to have a recovery.