Office of the Provincial Controller Division (OPCD)

Accounting for HOOPP

February 13, 2018

Government Financial Reporting

- The Province of Ontario prepares its Consolidated Financial Statements (CFS) in accordance with Public Sector Accounting Standards (PSAS) issued by the Public Sector Accounting Board

- Under PSAS, all entities under its control (as defined under the standards) are consolidated and reported as part of the Province's consolidated financial statements
  - Most HOOPP employers, including hospitals and Local Health Integration Networks (LHINs) are consolidated

- The Province commissioned the Pension Asset Expert Advisory Panel in 2016 to review its accounting for certain pension plans under PSAS
  - As part of this review, the Panel was asked to review the accounting for multi-employer pension plans (MEPPs), including HOOPP

Province’s Accounting for HOOPP

- PSAS permits individual entities participating in a MEPP to account for its participation in the plan using defined contribution accounting
  - Individual hospitals report for HOOPP using defined contribution accounting – generally expensing the contributions to the plan

- However, the Province reports HOOPP based on the accounting standards for a defined benefit plan, reflecting its aggregated share of the net pension obligations of HOOPP (obligation net of assets)

- Complexities of accounting for defined benefit plans:
  - PSAS requires entities to amortize actuarial gains and losses resulting from revisions in estimates and differences in actual vs. expected asset performance over the expected average remaining service life of employees (EARSL) in the plan
  - PSAS permits assets to be valued at market value or market-related value (adjusted to market over not more than 5 years)
  - PSAS requires an asset ceiling test for plans in a net asset position

Impact of Plan Amendments

- Changes in plan benefits and contributions affect the pension calculations used to determine the obligation to members

- Amendments to prior service result in an immediate expense and increased obligation to employees; the expense impact is offset by unamortized actuarial gains to the extent they exist

- Impact on amendments to prior service on an ongoing basis – increase in interest on obligation to employees; impact from use of unamortized actuarial gains

- For accounting purposes, HOOPP moved to a net asset position in 2017
  - As a result, a full valuation allowance has been reported starting in 2017-18 based on actuarial information as provided

- For 2018-19, the increase in pension expense from the amendment is expected to be offset by the decreased in the valuation allowance that would have otherwise been recorded

HOOPP Pension Expense

	Components	**Impact of Amendment**
	Current service cost	
+	Interest on accrued obligation	Increase
-	Expected return on assets	
+/-	Amortization of unrealized actuarial losses/(gains)	Decrease in amortization of unrealized gain (increases pension expense)
-	Employee contributions	
+/-	Valuation allowance (recovery)	Lower valuation allowance required
=	Pension Expense	No change

2018-19 Fiscal Impact (preliminary)

PSAB Expense ($ million)	2018-19
Before Plan Amendments	405
After Plan Amendments	595
Impact Increase/(Decrease)	**190**

Valuation Allowance ($ million)	2018-19
Before Plan Amendments	722
After Plan Amendments	532
Impact Increase/(Decrease)	**(190)**

Pension Expense ($ million)	2018-19
Before Plan Amendments	1,127
After Plan Amendments	1,127
Total Pension expense impact	**-**

* Preliminary impact are based on 2016 data. Numbers subject to change with updated actuarial and financial information for December 31, 2017