OPCD — Q&A Ontario Teachers' Pension Plan

DIVISION: OFFICE OF THE PROVINCIAL CONTROLLER

Teachers' Pension Plan (OTPP)

Q: Why is the 2016-17 Teachers' Pension Plan expense forecast to decrease from an expense of $1,590M in 2015-16 to a recovery of $452M in 2016-17?

Commented [NP1]: I wondered about using this term as well. Is this how PSAB describes a negative expense? It's not a recovery per se.

A: Teachers' Pension Plan expense is calculated in accordance with Public Sector Accounting Standards which takes into account the costs of benefits earned by members during the reporting period, as well as performance of the plan and other factors. A major factor in the observed recovery results is the fact that the OTPP has experienced favourable investment returns in the past several years (i.e. 2009 to 2015). The cumulative effect of those investment gains is more than sufficient to offset the Province's share of the cost of pension benefits that were earned by the members of the Teachers' Pension Plan during the period, resulting in a recovery of $453M in 2016-17.

In addition, 2015-16 actuals reflect the impact of a time-limited regulation which changed the accounting treatment for pension assets for OTPP for 2015-16 Public Accounts only and resulted in the same expense as would be calculated according to the Auditor General's interpretation of the accounting standards. The Province's future accounting treatment for pension assets will be informed by the results of the Pension Asset Expert Advisory panel.

Q: Why did the 2015-16 Teachers' Pension Plan expense increase to $1,590M in 2015-16 from $564M in 2014-15?

A: During the 2015-16 Public Accounts audit, the Auditor General (AG) raised issues regarding the Province's accounting treatment for pension assets related to jointly sponsored pension plans which challenged the accounting treatment followed by the Province for the past 14 years. The current AG's view is that the government does not have a legally enforceable right to unilaterally access the assets of the OTPP or OPSEUPP which are jointly sponsored pension plans. As such, with no agreement in place with the respective co-sponsors to benefit from reduced contributions, the AG believes that the pension assets should be removed from the Province's balance sheet. Given the differences in interpretation of accounting standards, the Province filed a time-limited regulation which changed the accounting treatment for pension assets of OTPP and OPSEUPP for the 2015-16 Public Accounts.

The regulated accounting change resulted in exact same fiscal impact as the AG's recently communicated interpretation of PSAB standards for fiscal 2015-16 The year-over-year increase in expense from 2014-15 to 2015-16 is a result of the time-limited regulation which resulted in the 2015-16 OTPP expense being increased from its original estimate of $110M to $1,590M.

To inform the Province's decision on future accounting for the pension assets for jointly sponsored pension plans, the Province is establishing an Expert Panel to assess the application of PSAB's pension accounting standards to Ontario's jointly sponsored pensioned plans, including a valuation assessment of the pension assets in question.

Q: Does the 2016-17 recovery of $452M factor in the time-limited regulation?

A: No. The 2016-17 forecast recovery of $452M reflects the Province's accounting of pension assets prior to the time-limited regulation, reflecting the Province's interpretation of PSAB accounting standards and consistent with the accounting practices in place for pension assets since 2001.

Q: Does the 2016-17 recovery of $452M indicate a reduction in the Province's annual cash contributions in the plan?

A: No. Employee and employer contributions are determined by a funding valuation undertaken by OTPP. Funding and accounting valuations serve different purposes and therefore also use different assumptions.

The purpose of a funding valuation is to assess the long-term financial health of a pension plan and is intended to gauge whether the plan will have sufficient assets to cover the costs of future pension benefits. In contrast, an accounting valuation is intended to calculate the actuarial present value of benefits earned by to employees to a particular date.

A recovery calculated in accordance with PSAB standards does not imply a reduction in pension contributions, but represents the cumulative effect of investment gains are more than sufficient to offset the Province's share of the cost of pension benefits that were earned by the members of the Teachers' Pension Plan during the period, Only through a funding valuation, and negotiations between the co-sponsors in accordance with the Partners Agreements, could an adjustment in contribution rate be realized.

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