RE: Please confirm

From: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <christina.chan@ca.ey.com>, Shayan Jafrani <shayan.jafrani@ca.ey.com>
Date: Mon, 15 May 2017 13:04:54 -0400

Thanks for letting me know Uros.
Nadine

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 15, 2017 1:02 PM
To: Petsche, Nadine (TBS)
Cc: Christina Chan; Shayan Jafrani
Subject: RE: Please confirm

My pleasure, Nadine. I will be in PSAB Taskforce meetings all of Wednesday and Thursday, but Shayan should be back by then, and I will be keeping an eye on my email throughout the week. Christina is now also back from vacation, so we're in good shape.

Uros

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, May 15, 2017 12:53 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Please confirm

Thanks for the additional clarity Uros. We'll be in touch if we need anything further.
Best regards,
Nadine

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 15, 2017 12:51 PM
To: Petsche, Nadine (TBS)
Cc: Christina Chan; Shayan Jafrani
Subject: RE: Please confirm

Hi Nadine,

You are correct – only those contributions that are required to be made regardless of any surplus would go to reduce the economic benefit available from expected future accruals for service. Given that there are no such requirements for either OTPP or OPSEUPP, the present value of such contributions is nil for both plans.

Examples of contributions that would be required regardless of any surplus are those contributions that cannot be reduced below a certain level even if the plan was overfunded. New Brunswick plans are examples of such plans – they have a minimum contribution floor of 9% that must be made regardless of the funded status of the plan. In other words, even if the plan was in surplus, the contributions could be reduced below 9%. So that contribution of 9%, that must be made regardless of any surplus, would be present-valued and included in the para 56 and 57 calculation. This is the main reason NB had to write down their pension asset. However, in contrast, there are no such minimum contribution floors for OTPP and OPSEUPP – the contributions could be reduced or eliminated if there were excess assets in the plan.

Another example is a set-up where the employer must at least match employee contributions (eg. 4% of pay) but where the employee contributions are not reassessed based on the funded level of the plan. In that case, the employer must contribute at least 4% regardless of any surplus. Again, in the OTPP and OPSEUPP case, there are no such requirements – while generally speaking employer and employees share costs 50/50%, both are subject to increases and reductions depending on the funded status of the plan, with no minimums that would apply regardless of surplus.

For greater clarity, treating any funding contributions as "contributions required regardless of any surplus" would be incorrect, as that would ignore the distinction made in paragraphs 56/57 (otherwise PSAS would simply refer to "contributions"). It would also be inconsistent with Canadian practice where only contributions like those descried in the examples above would normally be taken into account. Finally, it would not align with the Expert Panel conclusions.

Please let me know if this answers your question below.

Uros

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, May 15, 2017 12:01 PM
To: Uros Karadzic <uros.karadzic@ca.ey.com>
Cc: Christina Chan <Christina.Chan@ca.ey.com>; Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Subject: RE: Please confirm

Thanks Uros.
Since we aren't required to make minimum contributions regardless of surplus, I'm not sure that I understand how a run with perpetual minimum contributions would comply with the requirements of PSAB as noted. Please help me to understand. Thanks in advance. Nadine

.056 A government determines its expected future benefit as the sum of:

(a) the present value of its expected future accruals for service for the current number of active employees, **less the present value of required employee contributions and minimum contributions the government is required to make regardless of any surplus**; and

(b) the amount of the plan surplus that can be withdrawn in accordance with the existing plan and any applicable laws and regulations.

.057 A government's expected future accruals for service for the current number of active employees are determined on a basis consistent with that used to determine its accrued benefit obligation. These expected future accruals for service, **less required employee contributions and minimum contributions the government is required to make regardless of any surplus**, are then discounted back to the current period to determine the present value. The interest rate used to calculate this present value is the expected rate of return on plan assets used to determine the benefit expense in the period.

From: Uros Karadzic [mailto:uros.karadzic@ca.ey.com]
Sent: May 15, 2017 11:49 AM
To: Petsche, Nadine (TBS); Shayan Jafrani
Cc: Christina Chan
Subject: RE: Please confirm

Good morning, Nadine,

Thank you for sharing this request. The analysis requested is available and it is contained in the two documents we had prepared for you (attached here for your reference). The documents are still draft, since as we discussed they will need to be finalized once the decisions have been made regarding the year-end adjustments.

These documents contain complete PSAB asset ceiling test analysis for OTPP and OPSEUPP respectively. They include the perpetuity assumption for both Service Cost and for Contributions. As noted in the memos (section 3.2 in each of the documents), the present value, in perpetuity, of future service cost was $100.1B for OTPP and $13.88B for OPSEUPP. The present value, in perpetuity, of future contributions that are required to be made regardless of any surplus is Nil for both OTPP and OPSEUPP. The analysis is based on our understanding of PSAS asset ceiling requirements; it is also consistent with how these rules are applied in Canadian practice, and it is consistent with the conclusions of the Expert Panel report.

Regarding the source of OTPP and OPSEUPP contribution requirements, those can be found in the most recently filed actuarial reports for funding purposes. I trust your office has a copy of these for each plan. Please note that these reports, and the overall governance and contribution framework for OTPP and OPSEUPP, do not require either of the plan sponsors to make contributions even in the event that the plan is in a surplus position.

Please let me know if you need any further detail or if you'd like to discuss.

Uros

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From: Petsche, Nadine (TBS) [mailto:Nadine.Petsche@ontario.ca]
Sent: Monday, May 15, 2017 10:08 AM
To: Shayan Jafrani <Shayan.Jafrani@ca.ey.com>
Cc: Uros Karadzic <uros.karadzic@ca.ey.com>
Subject: Please confirm

Good morning Shayan.
Further to our recent conversation, can you please confirm that E&Y's asset ceiling analysis for OTPP and OPSEUPP did not include the 'perpetual' analysis as referenced by the OAG in the attached, and the reason therefore.
Also, can you please identify the specific pieces of information that the OAG would need to be able to allow her to complete the additional analysis. We had advised her staff during an audit status meeting last Thursday that they would already have it in their possession, but we will want to include specific reference to the docs in our response to the AG memo.
Thanks in advance.
Nadine

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