RE: Wording for note to f/s re: hybrid model (NPP suggested edits)

From: "Petsche, Nadine (TBS)" <nadine.petsche@ontario.ca>
To: "Veinot, Cindy (TBS)" <cindy.veinot@ontario.ca>, "Patel, Bharat (TBS)" <bharat.patel3@ontario.ca>
Date: Mon, 26 Sep 2016 11:38:30 -0400

Thanks Cindy. Looks great. Please see my minor suggested edits. n

From: Veinot, Cindy (TBS)
Sent: September 26, 2016 11:32 AM
To: Petsche, Nadine (TBS); Patel, Bharat (TBS)
Subject: Wording for note to f/s re: hybrid model

I've drafted a note to include in the financial statements (see below) – I think including it as note 18 is appropriate. We will need to remove all of the "retated" flags in this version of the financial statements as the prior year is not restated.

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18. Valuation of Pension Assets

The Province is a joint sponsor of both the Ontario Teachers' Pension Plan (OTPP) and the Ontario Public Service Employees' Union Pension Plan (OPSEUPP). Both of these plans are joint defined benefit plans and the Province accounts for its portion of each plan in accordance with the Public Sector Accounting Standards for defined benefit pension plans. Recording its portion of each of these plans has resulted in pension assets for OTPP and OPSUEPP for all years since fiscal 2001-2002. These plans are the only pension plans for which a pension asset is recorded.

A pension asset arises when the total of the Province's contributions to the plan as well as the interest earned on the assets in the plan is greater than the retirement benefit expense recognized ~~from~~ since the ~~start~~ inception of the plan.

When a pension asset arises, under Public Sector Accounting Standards ~~require that when a pension asset arises~~, additional analysis is required to determine whether the government is entitled to fully benefit from ~~this~~ the pension asset. If a government estimates that it will not be able to fully benefit from the asset, it records a valuation allowance against the asset to reduce the recorded net value of the asset. Generally, a sponsor would be able to benefit from an accounting surplus over time by reducing contributions to the plan.

Historically, the Province reported the full asset value on the consolidated financial statements as reflecting management's best estimate of expected future benefit ~~estimated that it could fully benefit~~ from the accounting surplus. In the current year, the Province has revisited its evaluation of the recoverability of the pension assets. Based on the actuarial modelling completed, the Province continues to believe that the assets are recoverable; however, it believes that additional modelling is required to either confirm its view or record an additional valuation allowance. The impact of recording an additional valuation allowance in the future could be material to the financial statements.

In light of the additional modelling that the Province is in the process of completing, the Province has not changed the value of the pension assets recorded at the end of the prior year and has recorded a valuation allowance during 2015-16 which is equivalent to the amount of ~~for~~ the increase in the pension assets that otherwise would have been recorded. In other words, the value of the pension assets related to OTPP and OPSEUPP are recorded at the same amount in both fiscal 2014-15 and fiscal 2015-16. The 2015-16 reported asset amount is net of a valuation allowance of $1.5 Billion. Recording a valuation allowance of $1.5 Billion in fiscal 2015-16 resulted in an increase in ~~ed~~ the annual deficit and net debt that would have otherwise been reported by $1.5 Billion.