Statement of Facts and Assumptions

The Province of Ontario (Province) is a joint sponsor of the Ontario Teacher's Pension Plan (OTPP or the plan) and accounts for the Province's share of the plan (50%) as a defined benefit plan under PS 3250 when preparing the financial statements of the Province.

The Plan is a contributory defined benefit pension plan co-sponsored by the Province and Plan members, represented by Ontario Teachers' Federation (OTF) (the co-sponsors) and is governed by the Teacher's Pension Act – Ontario (TPA). The Plan is administered and the investments are managed by the Ontario Teachers' Pension Plan Board (the Board). Under the TPA, the Board is constituted as a corporation without share capital to which the *Corporations Act (Ontario)* does not apply. The TPA provides that the governing documents for the Plan are the pension plan established under Schedule 1 to the TPA, along with such other governing documents as may be created or adopted under the TPA or the text of the pension plan.

Commented [Deloitte1]: What are the other governing documents – the FMP and the Partner's Agreement?

Section 5 of the TPA provides that the contributions of Ontario and contributing employers, on one hand, and active Plan members on the other hand, are to be approximately equal.

Commented [DK(-T2]: Does it actually say that? How is it expressed? Are there any exceptions described/

Section 10 of the TPA provides that the Minister of Education and the executive of The Ontario Teachers' Federation (OTF) may enter into an agreement that provides for, among other things, the joint management of the Plan and the sharing of entitlement to gains or surplus under the plan and of liability for deficiencies in the pension fund.

Pursuant to Section 10 of the TPA, the Minister of Education and the OTF (collectively the Partners) have entered into an agreement for the management of the Plan (Partners Agreement), to which is appended a Funding Management Policy (FMP) that is deemed to form part of the agreement.[1] The FMP provides for the funding of the Plan and how deficits and surpluses will be addressed.

The following is a summary of the components of the plan

(all figures in $B)	Total plan	50% Share of the plan
Market related value of assets	157.0	78.5
Value of obligation	116.4	58.2
Surplus (deficit)	40.6	20.3
Unamortized (gains) losses	(18.0)	(9.0)
Adjustment for March 31, 2016	(1.8)	(0.9)
Asset (liability) position	20.8	10.4
Specific Government adjustment		(0.3)
Final asset (liability) position on balance sheet		10.1

In recording the $10B asset, the Province has considered whether a valuation allowance should be factored into the analysis in order to ensure that the asset recorded reflects the expected future benefit from the plan that the Province can realize. Under Public Sector Accounting standards, the expected future benefit would be determined by examining the withdrawable surplus the Province can realize or through the reduction in future contributions (PS 3250.55).

In conducting its analysis, the Province has not considered any ability of the Province to withdraw surplus from the plan and has therefore focused on its ability to realize the recorded asset through a reduction of future contributions.

The FMP expressly anticipates the possibility of contribution holidays in two scenarios:

[1] Partners Agreement, section 110.

- Article IV (Temporary Improvements) of the FMP provides for temporary actions that can be taken by the partners when Plan assets are greater than current liabilities (subject to the restorations required in section 3.06 of the FMP having already been provided). Section 4.05 of the FMP provides that in such a scenario, the parties may reduce current contributions, provide temporary surplus distributions or provide a temporary benefit improvement.

- Article V (Permanent Improvements) of the FMP provides for permanent actions that can be taken when Plan assets exceed current liabilities by more than 10% of current liabilities. Section 5.05 provides for actions that can be taken in respect of the amount that assets exceed current liabilities plus the 10% margin noted previously. Such actions can include changes to current benefits, current contributions, or both.

We (Deloitte) have been asked on how we would apply the accounting principles of PS 3250 to the facts presented above and through our examination of the documents listed below. Specifically, we have been asked how to apply paragraphs PS 3250.50 – PS 3250.59, which describes the limit on the carrying amount of an accrued asset benefit to the facts presented above and through the review of the documents below.

In examining the facts in circumstances the following documents have considered to be relevant:

A. Teacher's Pension Act
B. Pension Benefits Act
C. The Partners Agreement
D. Funding Management Policy
E. The Actuarial Valuation for Accounting purposes performed by AON for the Province's March 31, 2016 public accounts
F. Legal Opinion provided by the Ministry of the Attorney General
G. Legal Opinion provided by External Law Firm
H. Publication from Teachers Pension Plan on Key Funding Decisions since 1990
I. Letter dated September 13, 2016 from the Office of the Auditor General to Mr. Greg Orenscak, DM, and Mr. Scott Thompson, DM on the Definition of Surplus Pension Assets and Expected Future Benefit Available to the Province of Ontario as of March 31, 2016
J. August 8th Communication from the Minister of Education and OTF to the OTPP
K. July 16th Internal Memorandum to the Minister of Education regarding the filing of an additional funding valuation
L. PS 3250
M. IAS 19
N. IFRIC 14

Commented [DK(-T3]: Is there a definition for how Plan Assets are to be calculated? Could there be a difference for accounting versus funding?

Commented [DK(-T4]: Is this explained somewhere in this fact pattern?

Commented [DK(-T5]: Be more precise: When there are plan assets greater than current liabilities after the restorations have been provided for.

Commented [DK(-T6]: Again, do we know if this is a funding concept or an accounting one? If funding, it would seem that this condition is not met since the funding valuation does not show a surplus.

Is this an interpretation that needs to be addressed? I thought that might have come through in the three or four questions the AG asked today.

Commented [DK(-T7]: Do we talk anywhere about what the margin in fact is?

Commented [Deloitte8]: I am listing all of the documents I have noted in my review, but I am not sure we should include all of these.

Commented [Deloitte9]: Should we reference the funding valuation? Some documents may need permission to use.