Statement of Facts

<u>Background of the Plan and Relevant Agreements</u>
The Plan is established by the *Teachers' Pension Act*[1] (TPA). The TPA provides that the Plan is a defined benefit pension plan within the meaning of the *Pension Benefits Act*[2] (PBA). 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.

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.

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.

The Minister of Education and the OTF 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.[3] The FMP provides for the funding of the Plan and how deficits and surpluses will be addressed.

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

- 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.

[1] R.S.O. 1990, c. T.1
[2] R.S.O. 1990, c. P.8
[3] Partners Agreement, section 110.

Province's accounting for the plan

The Province accounts for its joint sponsor ship of the plan based on the requirements of PS 3250, Retirement Benefits.

As of March 31, 2016, the Province has recognized a net pension asset related to this plan in the amount of $10.1 Billion.

In accordance with the requirements of paragraphs .50 to .59 of PS 3250, the Province has assessed whether a valuation allowance is required to reduce the carrying value of this asset. To complete that analysis the following procedures were completed:

1. The computational analysis to compare the adjusted benefit asset to the expected future benefit. The analysis was completed with the assistance of advisors from Deloitte LLP. The results of that analysis noted that :
    a. The expected future benefit exceeded the adjusted benefit asset.
    b. The expected future benefit was estimated at $29.3 Billion as compared to the adjusted benefit asset of $10.1 Billion, resulting in a "gap" of $19.2 Billion.
    c. The computation of the expected future benefit did not take into consideration any ability of the Province to withdraw surplus from the plan.

2. Ministry of the Attorney General (Legal Services Branch , Treasury Board Secretariat) prepared a legal opinion on whether Ontario is legally entitled to benefit from the "Government Portion" of the surplus recognized by Ontario as a pension asset and concluded that Ontario does have an enforceable legal interest in the "Government Portion" of the identified surplus.

Limit on the carrying amount of an accrued benefit asset

.050 An accrued benefit asset should be presented on a government's statement of financial position net of any valuation allowance. When a defined benefit plan gives rise to an accrued benefit asset, a government should recognize a valuation allowance for any excess of the adjusted benefit asset over the expected future benefit. A change in valuation allowance should be recognized in the statement of operations for the period in which the change occurs.

.051 A government with a defined benefit plan may have an accrued benefit asset for accounting purposes. An accrued benefit asset arises when the government's total contributions to the plan, including interest earned thereon, are greater than the retirement benefit expense recognized since the start of the plan. Contributions reflect the funding objectives of the plan. The benefit expense reflects the accounting objectives and may differ for a number of reasons, including the fact that actuarial gains and losses are deferred and amortized in future periods.

.052 A government may benefit from an accrued benefit asset either by withdrawing surplus assets **or** by taking a contribution holiday **or** receiving a refund of contributions. The accrued benefit asset may become impaired when there is a plan surplus for accounting purposes that the government is not entitled to benefit from fully. For example, there may be a regulatory moratorium on pension surplus withdrawals or uncertainties as to a government's legal right to use a plan's accounting surplus.

.053 To determine the extent to which an accrued benefit asset may be impaired, the government first determines the adjusted benefit asset. The adjusted benefit asset is the accrued benefit asset less net unamortized actuarial losses (determined on a basis using market value of assets).

.054 The adjusted benefit asset is then compared to the expected future benefit. When the expected future benefit exceeds the adjusted benefit asset, the accrued benefit asset is not impaired and, accordingly, no valuation allowance is required. The chart included as Appendix A to this Section is intended to set out the relationship between the various defined terms.

.055 The objective of the standard in paragraph PS 3250.050 is to limit a government's accrued benefit asset to the amount it can realize in the future. The expected future benefit is a calculated amount representing the benefit a government expects to realize from a plan surplus. An expected future benefit includes any withdrawable surplus or reduction in future contributions.

.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.

.058 When administration expenses are paid by the plan and included in the normal cost calculation, a best estimate of the future administration expense is included in the expected future accruals for service. When administration expenses are paid by the plan and not included in the normal cost calculation, the rate of return on plan assets is adjusted to reflect the deduction of the administrative expenses.

.059 A key factor in determining a government's expected future benefit from a defined benefit plan with a plan surplus for accounting purposes is the ability of the government to withdraw assets from the plan. The expected future benefit includes amounts to which a government has a legally enforceable right of withdrawal. It excludes any withdrawable plan surplus a government is currently required, or intends, to allocate to employees. A government may not anticipate obtaining a legally enforceable right to withdraw a portion of a plan surplus to which it is not currently entitled, whether on the basis of precedent or otherwise. Accordingly, when withdrawal of plan surplus requires the approval of employees or an appropriate regulatory authority or a court of law, a government excludes any amount subject to this restriction from its expected future benefit until such approval has been obtained. A change in the allocation of surplus between a government and its employees is incorporated into the calculation of the expected future benefit only when it has been agreed to and, when required, approved by the appropriate regulatory authorities.